

# Financial Report 2017

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# Financial Report 2017 of NRW.BANK

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This is an unofficial translation of the Finanzbericht 2017 (German Financial Report 2017) and is provided for convenience purposes only. In the event of any ambiguity, the German text will prevail.

# The Promotional Business of NRW.BANK

## 1 Overview

As the promotional bank and main promotional platform of North Rhine-Westphalia, NRW.BANK supports its owner and guarantor, the State of North Rhine-Westphalia, in the fulfilment of its structural and economic policy tasks and in the efficient implementation of promotional programmes in North Rhine-Westphalia with a view to minimising the impact of these activities on the state budget. To meet its promotional mission, NRW.BANK draws on the full range of available promotional instruments and, in particular, contributes its lending expertise to the promotional process.

An integral element of the bank's promotional strategy is the "Förderleistung" which refers to the cost-free facilitation of monetary and non-monetary resources for the promotional business. Interest waivers are a central component of NRW.BANK's "Förderleistung". On the one hand, it reduces a borrower's interest expenses by subsidising the interest rate for the end borrower, resulting in a below-market interest rate. On the other hand, NRW.BANK refrains from putting its equity capital in alternative investments yielding higher interest and, hence, income by using this capital to finance promotional loans granted at interest rates that are lower than the market rate. Other components of the "Förderleistung" include risk assumptions and services such as advisory services for companies and customers. Especially, the supply of the "Förderleistung" enables NRW.BANK to make available attractive promotional products to the respective target groups.

NRW.BANK takes into account the existing offers by the Federal Institutes in the arrangement of its promotion and supports the sizable use of Federal and EU promotional funds in the State of North Rhine-Westphalia. The Bank serves as a conduit for the federal promotional programmes of KfW Bankengruppe and Landwirtschaftliche Rentenbank in its capacity as the central institution of the North Rhine-Westphalian savings banks. To re finance its promotional activities, NRW.BANK also uses funds made available to it by KfW Bankengruppe, Landwirtschaftliche Rentenbank, the European Investment Bank as well as the Council of Europe Development Bank (CEB).

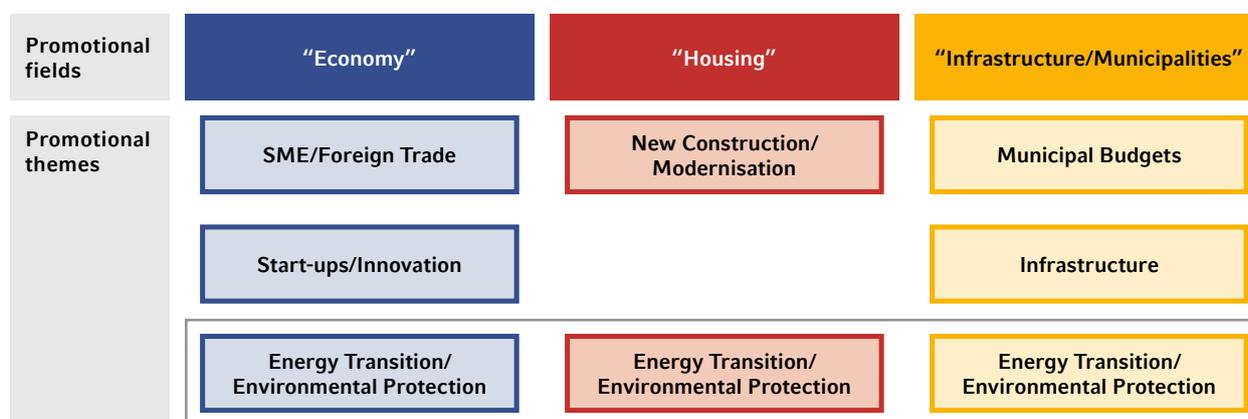
NRW.BANK's promotional offerings and their further development are driven by the promotional policy principles adopted by the Board of Guarantors as well

as by NRW.BANK's promotional strategy, which is based thereon.

When developing and refining the contents of its promotional offerings, NRW.BANK regularly takes into account the latest developments; in early 2017, for instance, the Bank decided to launch the "NRW.BANK.Gute Schule 2020" programme in co-operation with the State of North Rhine-Westphalia. In the context of this joint programme, which is designed to finance municipal investments in the refurbishment, modernisation and expansion of the municipal school infrastructure, NRW.BANK makes available € 500 million per year for long-term loans over a period of four years. To prevent such investments from failing because of the financial situation of the municipality, the State of North Rhine-Westphalia supports the municipalities by taking over their interest and principal payments. The beginning of 2017 also marked the start of a special offering to support measures for the sustainable economic and social revitalisation of urban quarters. The new infrastructure promotion programmes were complemented by a special programme for the promotion of energy-efficient district heating and cooling networks. 2017 also saw NRW.BANK launch a new programme for university spin-offs to round off its range of economic promotion programmes.

In terms of contents, NRW.BANK's promotional offerings are divided into three different promotional fields denoting the target areas where the promotional activities are to take effect. As of the beginning of the fiscal year 2017, these promotional fields are "Economy", "Housing" and "Infrastructure/Municipalities". Each of the three promotional fields is composed of specific promotional themes, which are elaborated in NRW.BANK's promotional strategy. The implementation of the energy transition and the consideration of environmental protection aspects require an integrated approach and therefore relate to all three promotional fields of NRW.BANK, albeit with different facets and promotional measures. "Energy Transition/Environmental Protection" is therefore a theme spanning all three promotional fields. The individual promotional themes, in turn, are put into more concrete terms by the Bank's various promotional products. Each promotional product is assigned to a specific promotional theme.

## Promotional architecture of NRW.BANK



In 2017, NRW.BANK was able to continue the successful new promotional business trend of the previous years and even exceeded the very good result of the previous year, at € 11.6 billion (2016: € 11.2 billion).

The table below shows a breakdown of the volume of new commitments by promotional fields:

### Volume of new commitments

Breakdown by promotional fields	Dec. 31, 2017	Dec. 31, 2016	Change
	€ millions	€ millions	€ millions
Economy	3,667	3,210	457
Housing	2,609	2,746	-137
Infrastructure/Municipalities	5,359	5,205	154
<b>Total</b>	<b>11,635</b>	<b>11,161</b>	<b>474</b>

### 2 Promotional field "Economy"

NRW.BANK's economic promotion activities comprise a wide range of financing instruments such as low-interest promotional loans, risk assumption as well as equity strengthening solutions. The various promotional solutions in this promotional field allow NRW.BANK to cover the entire lifecycle of a company – from seed finance to the supply of capital in general and in phases of growth to support restructuring exercises. The Bank's economic promotion offerings are complemented by advisory services.

Apart from improving the capital structure and the financing situation of small and medium-sized enterprises, NRW.BANK focuses its economic promotion activities on start-ups and innovations as well as on the cross-sectional theme "Energy Transition/Environmental Protection". The Bank thus acknowledges the fact that business start-ups and innovations play a key role for the dynamic development of the North Rhine-Westphalian economy and that companies are attaching growing importance to investments in the protection of resources and increased energy efficiency.

NRW.BANK's comprehensive range of economic promotion products and services helps to lay the basis for a prospering economy, for creativity as well as for a spirit of optimism and dynamism. In doing so, the Bank acts as a reliable partner to both businesses and the federal state.

#### **Promotional theme "SME/Foreign Trade"**

This promotional theme comprises the two anchor products of NRW.BANK in the field of economic promotion, i.e. the NRW.BANK.Universalkredit and the NRW.BANK.Mittelstandskredit. These two programmes offer small and medium-sized enterprises low-interest loans for working capital requirements and investments that can be used for a broad range of purposes. Subject to certain conditions, optional liability releases of 50% for the on-lending house banks may be applied for as an additional promotional component. The two anchor products account for the biggest portion of the volume of new commitments in this promotional theme. In addition, NRW.BANK's low-interest global loans offer banks and savings banks favourable refinancing loans to fund their own SME lending activity. NRW.BANK also joins syndicates extending loans for small and mid-sized companies.

Established SMEs are offered mezzanine capital or equity investments to strengthen their equity capital. In addition, NRW.BANK supports the provision of equity for restructuring efforts via a separate fund by acting as a co-investor for capital investment companies.

Advisory services are available to SMEs both with regard to the full range of NRW.BANK's promotional products and regarding the support offered by other institutions. NRW.BANK additionally supports small and medium-sized enterprises in change processes by way of individual advice for the optimisation of their financing structures using public funds.

NRW.BANK's foreign trade promotion products and services include, on the one hand, low-interest loans for foreign investments and back-up guarantees to banks underwriting export guarantees for small and

medium-sized enterprises and, on the other hand, advice on the use of public promotional and development funds in international projects.

#### **Promotional theme "Start-ups/Innovation"**

The highest-volume programme in this promotional theme offers interest-subsidised loans for start-up and consolidation financing. These loans are partly combinable with liability releases for the on-lending house bank depending on the age of the company. In addition, micro start-ups with credit requirements of up to € 25,000 benefit from a separate NRW.BANK programme, under which not only low interest rates are offered but also no collateral is required. Applications for promotional funds under this programme are channelled through the STARTERCENTERS in North Rhine-Westphalia.

The special needs of start-up projects in innovative sectors are met by NRW.BANK through a fund-of-funds initiative for seed financings. To stimulate seed investments, this initiative acts as a fund investor providing regional seed funds in North Rhine-Westphalia with capital. For many start-ups it is difficult to raise follow-up finance once a project loan expires. In autumn 2017 NRW.BANK therefore launched a new programme targeted at start-ups which previously received funding under the state programme "START-UP-Hochschul-Ausgründungen NRW". They can now raise the necessary follow-up funds to finance their business via convertible bonds of NRW.BANK. NRW.BANK's offerings for the promotion of innovation also include an in-house advisory centre for technologically oriented up-and-coming business founders from universities and research institutions as well as new innovative start-ups. In addition, NRW.BANK's advisory, support and mediation activities effectively support investments by business angels, i.e. high net worth individuals with a proven entrepreneurial background, in innovative start-ups.

A promotional programme offering especially attractive conditions is available to support small and medium-sized companies' investments in adding new, techno-

logically advanced products to their product ranges or in the adoption of high-tech production processes. A lack of available collateral often makes it difficult for fast-growing and/or innovative SMEs to raise loans. NRW.BANK therefore supports this target group via a separate complementary offering. Apart from favourable terms and conditions, this programme offers a 70% liability release for the on-lending house banks. NRW.BANK additionally acts as co-investor in venture capital financings to support young innovative enterprises.

Companies in the creative sector are characterised by special promotional requirements. NRW.BANK has therefore launched a promotional programme for individuals and businesses in the creative sector, offering low-interest, collateral-free advance finance for orders received or project work. Applications for this programme may be submitted directly to NRW.BANK. Start-ups and newly established companies in the digital sector benefit from effective support in the form of convertible bonds or equity investments which are granted in addition to investments by business angels.

#### **Promotional theme “Energy Transition/Environmental Protection”**

The aim of the German energy transition is to improve the energy efficiency and reduce the energy consumption of companies. NRW.BANK supports companies’ efforts in this respect through a promotional programme with especially favourable conditions. To qualify for funds under these programmes, applicants must fulfil certain minimum requirements in terms of energy savings/efficiency. Enterprises may also receive low-interest financing for research and development projects falling under the “Masterplan Elektromobilität Nordrhein-Westfalen” (North Rhine-Westphalia’s Electromobility Masterplan).

In 2017, 95% of the volume of new commitments in this promotional theme was accounted for by KfW Bankengruppe and passed on by NRW.BANK in its capacity as the central institution of the North Rhine-Westphalian savings banks.

#### **3 Promotional field “Housing”**

The activities of NRW.BANK in this field of promotion are designed to improve housing and living standards as well as the urban environment. NRW.BANK’s products help enhance the housing supply in North Rhine-Westphalia by promoting the construction of new housing as well as the modernisation of the existing housing stock. Its promotional offerings also support efforts aimed at increasing energy efficiency and implementing environmental and climate protection targets in residential properties.

Social housing promotion remains an indispensable element to realise these objectives and is designed to ensure affordable quality housing in North Rhine-Westphalia. The relevant promotional loans of NRW.BANK are applied for with the local governments and disbursed directly to the recipients. The promotional activities reflect the State of North Rhine-Westphalia’s housing promotional programme (Wohnraumförderprogramm, WoFP) as well as the respective development guidelines.

#### **Promotional theme “New Construction/Modernisation”**

NRW.BANK’s social housing promotional programmes are designed to support, in particular, the creation of affordable, high-quality housing for households that are unable to obtain adequate housing in the market. In this context, the programme for the promotion of rent-controlled and occupancy-controlled housing construction and the support in the acquisition and construction of owner-occupied housing for this target group plays an important role. In the field of social housing promotion, NRW.BANK additionally promotes the removal of barriers in owner-occupied and rented residential buildings and encourages investors to build student dorms and to create and provide housing for refugees. To create additional incentives for investors in social housing promotion also in 2017, the Bank continued to offer the publicly funded debt relief scheme under which a pro-rated part of the principal repayment is waived subject to certain conditions.

Promotional products for home owners of privately used buildings complement NRW.BANK's offerings in the field of social housing promotion. Low-interest loans are granted, for instance, to finance the replacement of heating systems, structural measures for flood protection, the modernisation of sanitary installations or measures for the elimination of barriers or for burglary protection. NRW.BANK's promotional offerings also take into account that more than one in five flats in North Rhine-Westphalia are owned by homeowners' associations. A special product for homeowners' associations offers not only favourable conditions but also a 50% liability release for the on-lending house bank, while at the same time reflecting the special challenges for loans granted to homeowners' associations. With a view to the ageing society, NRW.BANK additionally offers low-interest loans to support investments in care and nursing homes and the construction of new care and nursing homes.

#### **Promotional theme "Energy Transition/Environmental Protection"**

Energy savings and improved energy efficiency are also relevant for housing promotion. NRW.BANK supports the corresponding efforts in the construction of social housing and effectively promotes the modernisation of private sewer pipes of owner-occupied homes.

NRW.BANK's programmes in this field are primarily designed to effectively complement the offerings of the federal government. Consequently, the promotional programmes of KfW Bankengruppe channelled through NRW.BANK accounted for close to 95% of the reported volume of new commitments.

#### **4 Promotional field "Infrastructure/Municipalities"**

A functioning infrastructure is an important precondition for economic growth in individual regions of North Rhine-Westphalia. The expansion of the educational infrastructure, which is a key success factor for the future development in North Rhine-Westphalia, and the active implementation of the energy transition with the help of appropriate measures are of special importance for society. NRW.BANK therefore supports projects designed to improve the technical and social infrastructure both publicly and privately.

#### **Promotional theme "Municipal Budgets"**

NRW.BANK is aware that a functioning community relies on solidly funded municipalities and therefore provides the municipalities in North Rhine-Westphalia with municipal loans and liquidity loans. Promotional funds totalling € 2.7 billion were made available to North Rhine-Westphalian municipalities in 2017.

In addition to its financial offerings, NRW.BANK provides the North Rhine-Westphalian municipalities with advisory services regarding promotional offerings as well as economic and financial issues. The latter comprise both financial management support for municipalities and advice on projects, e.g. for the development and implementation of municipal action plans or public private partnership projects.

#### **Promotional theme "Infrastructure"**

In the context of its infrastructure promotion activities, NRW.BANK offers the North Rhine-Westphalian municipalities, their enterprises and municipal cooperatives low-interest and long-term investment loans, which are extended directly. The high investments needed to maintain and expand North Rhine-Westphalia's infrastructure require not only public funds but increasingly also private capital. NRW.BANK therefore offers favourable terms and conditions to encourage corporate investment in social and public infrastructure projects. The Bank additionally supports infrastructure projects by way of customised corporate and project loans in the context of syndicates with other banks.

These broad-based promotional offerings are complemented by a number of special programmes with especially attractive terms for selected objectives and investment projects, respectively, to provide stimulation in certain infrastructure sub-segments. Examples include special offerings for the promotion of broadband expansion in North Rhine-Westphalia, for the maintenance and refurbishment of buildings listed as public monuments or for the promotion of sports facilities. In 2017, NRW.BANK additionally launched a special promotion programme comprising low-interest loans and optional liability releases to support urban development projects. This new programme is designed to make a meaningful contribution to the sustainable

economic and social revitalisation of urban quarters. Projects which are consistent with an integration action plan of the respective municipalities are eligible for promotion under the programme. NRW.BANK supports the public sector's efforts in this area by promoting and supporting private investment as well as by conducting economic feasibility studies comparing different forms of funding and realisation.

NRW.BANK offers municipal school operators and municipal school associations in North Rhine-Westphalia long-term loans at highly attractive terms with maturities of up to 30 years for the construction and refurbishing of school buildings. As described above, NRW.BANK's offerings in the field of educational infrastructure are complemented by a programme for the refurbishment, modernisation and expansion of the municipal school infrastructure in North Rhine-Westphalia, which was launched in cooperation with the State of North Rhine-Westphalia.

**Promotional theme "Energy Transition/Environmental Protection"**

NRW.BANK supports investments in the energy infrastructure by way of both low-interest promotional programme loans and customised company and project financings within the framework of syndicates with other banks. The Bank thus promotes investments in power generation plants, the construction of energy storage capacities and the construction and maintenance of networks.

Special promotional solutions for flood management and other selected water management measures as well as for investments in the resource-efficient disposal of waste water primarily serve to advance environmental protection in the context of infrastructure promotion. In spring 2017, NRW.BANK's range of promotional products and services was complemented by a special programme for the promotion of energy-efficient district heating and cooling networks in North Rhine-Westphalia.

# Report on Public Corporate Governance in the Year 2017

## 1 General Information

NRW.BANK is the promotional bank for North Rhine-Westphalia. As the central development platform NRW.BANK supports its owner, the State of North Rhine Westphalia, in meeting its public, especially structural, economic, social and housing policy tasks and in the efficient implementation of development and promotional programmes in North Rhine-Westphalia with a view to minimising the impact of these activities on the state budget. In this context, NRW.BANK is committed to responsible and transparent action vis-à-vis the public, the guarantor as well as investors, customers and employees.

Since 2006, NRW.BANK has reported annually on the corporate governance efforts undertaken by NRW.BANK on the basis of its own Public Corporate Governance Code (PCGK), which reflects the specific requirements of the Bank. Since its amendment in 2014, it has been based on the Code of the State of North Rhine-Westphalia but also takes into account the specific public mission and the particularities of a competition-neutral public-law promotional bank, which is almost budget independent. Besides legal and statutory provisions, it also includes recommendations and suggestions that go beyond the legal and statutory requirements.

For the reporting year, the Managing Board and the Supervisory Board declare that the Bank has largely complied with the recommendations of the Code. In accordance with Section 29 Para. 8 of NRW.BANK's Statutes as well as Clause 1.3.2 and 1.4 of the Public Corporate Governance Code, necessary deviations from these recommendations are disclosed and explained in the following Declaration of Conformity.

## 2 Guarantor and Board of Guarantors

The State of North Rhine-Westphalia is the guarantor of NRW.BANK. The State has assumed permanent institutional and guarantor liability for NRW.BANK and has issued the Bank with an explicit funding guarantee.

The State of North Rhine-Westphalia exercises its rights in line with its legal powers at the Board of Guarantors, where it exercises its voting right. The

voting right is exercised unanimously by the "voting agent", i.e. a member of the Board of Guarantors appointed by the guarantor.

The Board of Guarantors is composed of three members who accede to their position by virtue of holding public office; according to the Act on and Statutes of NRW.BANK, these are the Minister for Economics, the Minister for Finance and the Minister for Housing. In addition, there are another two members appointed by the guarantor, with one of them acting as the above-mentioned voting agent.

The elections held in the State of North Rhine-Westphalia in the reporting year and the subsequent formation of a new North Rhine-Westphalian government as of June 30, 2017 resulted in a number of changes to the bodies of NRW.BANK around the middle of the reporting year. With respect to the Board of Guarantors, both the members who accede to their position by virtue of holding public office and the two members appointed by the guarantor were replaced, with one of the latter acting as the voting agent. The Board of Guarantors is chaired by the Minister for Economics.

The Board of Guarantors held two physical meetings in the reporting year – one was held by the old Board of Guarantors and one by the newly appointed Board of Guarantors – at which it discussed, among other things, the strategy of NRW.BANK for the years 2018 to 2021 and adopted the principles of the business, promotional and risk policy contained therein at the recommendation of the Supervisory Board.

Based on a resolution adopted by the North Rhine-Westphalian government, the Board of Guarantors additionally decided the benchmarks of the housing promotional programme for the 2018 to 2022 promotional years in accordance with Section 6 Para. 1 of the Law on the Promotion and Use of Housing for the State of North Rhine-Westphalia (WFNG NRW).

Based on a Europe-wide invitation to tender for the external audit of NRW.BANK's financial statements for the reporting years 2016 to 2019 published in 2015, the Board of Guarantors again commissioned Ernst &

Young GmbH Wirtschaftsprüfungsgesellschaft to carry out the audit of the financial statements for the period ended December 31, 2017 at the recommendation of the Supervisory Board.

In the reporting year, the Board of Guarantors decided to renew the existing directors' and officers' liability insurance policy (D&O insurance) for the members of the Managing Board, the Supervisory Board and the Board of Guarantors for 2018. The agreed deductible amounts to 10% of each damage but to no more than 1.5 times the fixed annual remuneration.

Increasing requirements in the banking environment and constant amendments of the regulatory conditions require continuous further training, also in light of the new composition of the Board of Guarantors. NRW.BANK considers it its duty to support the members of the Bank's bodies through constant improvement of its training concept. After having focused on the continuity of the bodies' work in the reporting year, the arrangement of targeted further training offers will be continued next year. In this context, the current offering will be expanded by a module addressing current supervisory changes developed in cooperation with Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. Participation in this training event, which is scheduled to take place in spring 2018 and primarily targets the members of the Supervisory Board, will also be offered to the members of the Board of Guarantors. In addition, NRW.BANK continues to make available a training budget to its body members which may be used in consultation with the Public Corporate Governance Adviser of NRW.BANK.

### 3 Managing Board

The Managing Board is responsible for independently managing NRW.BANK according to commercial principles and in the interest of the Bank on a non-competitive and non-profit-driven basis, taking the public benefit into account.

The Managing Board of NRW.BANK is composed of four members, one of whom is appointed Chairman. The organisational structure of NRW.BANK as well as the powers and responsibilities of the Managing Board members take the organisational separation of front

office and back office functions in the meaning of the Minimum Requirements for Risk Management (MaRisk) into account. The current organisation chart can be found on the website of NRW.BANK.

When filling management positions at NRW.BANK, the Managing Board aims for diversity and an appropriate consideration of both genders. As at December 31, 2017, 31.3% of the management positions at the second to fifth level of the Bank were held by women, while 68.7% were held by men (previous year: 31.7% women vs. 68.3% men).

The Managing Board defines the business, promotional and risk strategy to put the strategic positioning of NRW.BANK defined in the principles of the business, promotional and risk policy into more concrete terms, discusses it with the Supervisory Board and its committees, adopts it and ensures that it is put into practice. The overall strategy is geared to the sustainable fulfilment of the public development mission.

The Managing Board ensures well-functioning, appropriate risk management and controlling in accordance with the regulatory standards. Internal Audit plays a key role in the risk management system of NRW.BANK.

As in the previous years, the evaluation of the Managing Board carried out in the reporting year by the Supervisory Board in accordance with Section 25d Para. 11 No. 3 and 4 KWG was supported by an external consulting firm. The Managing Board was evaluated with regard to the knowledge, skills and experience of its individual members and the body as a whole as well as with regard to its structure, size, composition and performance. The evaluation was based on a concept for the years 2016 to 2018 adopted by the Supervisory Board in the reporting year 2016 and confirmed the good evaluation results of the previous year. According to this evaluation, the members of the Managing Board are able and sufficiently experienced to effectively and efficiently conduct the Bank's business activities. The cooperation between the Managing Board members, with the Bank's other bodies and its employees is characterised by trust, openness and a sense of responsibility.

The members of the Managing Board are committed to the interest of the Bank and fulfil their tasks in virtue of their office in an independent, unbiased and selfless manner. No member of the Managing Board pursued personal interests when making decisions; no gifts, other benefits or promises thereof were solicited or accepted neither personally nor on behalf of third parties. No conflicts of interest occurred during the reporting year. Potential conflicts of interest that may occur in the context of other mandates are managed in a forward-looking manner in the meaning of the Public Corporate Governance Code (PCGK).

Secondary activities on Supervisory Boards or comparable controlling bodies of enterprises are performed only after they have been approved by the Supervisory Board. The respective approvals of the Supervisory Board for the existing mandates have been obtained. The remuneration received has been disclosed to the Bank and is shown in the Annual Report.

NRW.BANK granted no individual loans to Board members or their relatives. There was no need to obtain any approval of the Risk Committee for permissible promotional loans made available in connection with programmes of NRW.BANK.

Similar to the Supervisory Board and the Board of Guarantors, the existing D&O insurance for the members of the Managing Board has been renewed. The agreed deductible amounts to 10% of each damage but to no more than 1.5 times the fixed annual remuneration.

The Managing Board is committed to ongoing further training, especially in the field of regulatory amendments and requirements in the banking environment; Board members undertake appropriate further training measures at their own initiative.

#### 4 Supervisory Board

The Supervisory Board of NRW.BANK oversees the management activities of the Managing Board of NRW.BANK, also with respect to regulatory requirements.

The Supervisory Board has 15 members; in accordance with the Act on NRW.BANK and the Statutes, it is com-

posed of members who accede to their position by virtue of holding public office, namely the Minister for Economics, the Minister for Finance and the Minister for Housing, plus seven other members appointed by the guarantor as well as five members who represent the workforce. As at December 31, 2017, 40% of the members of the Supervisory Board were women and 60% were men.

The members who accede to their position by virtue of holding public office are authorised to invite an additional permanent representative to the meetings and/or to be represented by the latter. The current brief CVs of the members of the Supervisory Board as well as the permanent representatives can be found on the website of NRW.BANK. In order to ensure an efficient division of labour, the Supervisory Board forms committees from among its members, which advise and support it.

The elections held in the State of North Rhine-Westphalia in the reporting year and the subsequent formation of a new North Rhine-Westphalian government as of June 30, 2017 resulted in a number of changes to the bodies of NRW.BANK around the middle of the reporting year. These changes included the replacement of the Supervisory Board members who accede to their position by virtue of holding public office as well as three of the seven members appointed by the guarantor. Moreover, some of the permanent representatives were replaced. In addition to the balance and diversity of the knowledge, skills and experience of all members, appropriate continuity in the work of the Supervisory Board and its committees was taken into account in the appointment of new members to the Supervisory Board. To this end, the Supervisory Board approved and implemented a "Concept ensuring the quality of the work of the Supervisory Board in the event of membership changes" during the reporting year.

The Supervisory Board is chaired by the Minister for Economics. The new members were appointed to the individual committees based on their personal expertise as well as committee-specific requirements. A new chairperson and vice chairperson were elected for the Promotional Committee and the Risk Committee and a new vice chairperson was elected for the Audit Committee.

Based on the respective rules of procedure, preliminary discussions are held in the committees with a focus on the respective issues. The chairpersons of the respective committees inform the full Supervisory Board about the discussions and their results. Irrespective of the above, the documents used for discussion at the committee meetings are available to the Supervisory Board members that are not committee members for information purposes upon request.

The Executive and Nomination Committee prepares the meetings of the Supervisory Board and the Board of Guarantors. It supports the filling of Managing Board and Supervisory Board positions as well as the evaluation of the Managing Board and the Supervisory Board to be carried out at least once a year. It furthermore decides on the budget for the Bank's corporate citizenship activities.

The Remuneration Committee is, in particular, responsible for supervising the appropriateness of the remuneration systems for the Managing Board and the employees of NRW.BANK.

The Risk Committee helps the Supervisory Board monitor the Bank's risk situation.

The Audit Committee supervises the accounting process, the effectiveness of the risk management system and the performance of audits. The Audit Committee is also responsible for reviewing the independence of the auditors and approving permissible non-audit services.

The Promotional Committee addresses various aspects of the promotional policy and the promotional business.

In addition to the ordinary meetings, further extraordinary meetings of the Supervisory Board and individual committees had to be held in the reporting year, not least against the background of the appointment of new members to the Supervisory Board of NRW.BANK. The number and the duration of the meetings held by the Supervisory Board and the committees in the reporting year were in line with the Bank's requirements. No member of the Supervisory Board attended less than half of the meetings held during his or her respective term of office.

In accordance with MaRisk rules, the business, promotional and risk strategy was discussed with the Supervisory Board after having previously been discussed by the Promotional Committee and the Risk Committee. The Supervisory Board submitted a resolution proposal to the Board of Guarantors regarding the principles of the business, promotional and risk strategy which define the framework of the strategic activity.

The Supervisory Board is also responsible for the appointment and dismissal of the members of the Managing Board. The required continuity and long-term planning horizon play a key role in all decisions and recommendations. To this end, the Chairman of the Supervisory Board closely cooperates with the other top guarantor representatives as well as the Managing Board.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and chairs its meetings. He liaises with the Managing Board of NRW.BANK, notably the Chairman of the Managing Board – also outside the meetings – during regular talks. Where necessitated by urgent events, the Chairman of the Supervisory Board informs the members of the Supervisory Board and convenes an extraordinary meeting if required. If necessary, the Supervisory Board also meets without the Managing Board.

A self-evaluation of the Supervisory Board in its old composition was carried out in the reporting year – in analogy to the evaluation of the Managing Board and based on the concept adopted for the years 2016 to 2018. The good overall result of the previous year was confirmed. The Supervisory Board also addressed the recommendations adopted as a result of the evaluation in the previous year, which were almost completely implemented. At the same time, the Supervisory Board identified new recommendations, which are mostly of a processual nature.

No business or personal relations that give rise to a material and no temporary conflict of interest exist between the members of the Supervisory Board and NRW.BANK. Potential conflicts of interest that may occur in the context of other mandates are managed in a forward-looking manner in the meaning of the Public Corporate Governance Code (PCGK).

No relevant conflicts of interest were disclosed to the Supervisory Board in the reporting year. No member of the Supervisory Board pursued personal interests when making decisions. The members of the Supervisory Board ensured that they had enough time to fulfil their mandates. The limits for the number of permissible mandates and chairs on supervisory bodies pursuant to the Public Corporate Governance Code were met by the members.

NRW.BANK granted no individual loans to Supervisory Board members or their relatives. There was no need to obtain any approval of the Risk Committee for permissible promotional loans made available in connection with programmes of NRW.BANK. Similar to the Managing Board and the Board of Guarantors, the existing D&O insurance for the members of the Supervisory Board has been renewed. The agreed deductible amounts to 10% of each damage but to no more than 1.5 times the fixed annual remuneration.

The members of the Supervisory Board undergo regular training in order to ensure that they have the expert knowledge required under statutory regulations as well as under the Bank's own governance principles. NRW.BANK considers it its duty to support the members of the Bank's bodies through the constant further development of its training concept. After having focused on the continuity of the bodies' work in the reporting year, the arrangement of targeted further training offers will be continued next year – in analogy to the Board of Guarantors. To facilitate their start in their new role, a special training offer is made to the newly appointed Supervisory Board members, which was developed in cooperation with Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft in accordance with the "Concept ensuring the quality of the work of the Supervisory Board in the event of membership changes". Irrespective of the above, NRW.BANK continues to make available a training budget to its body members which may be used in consultation with the Public Corporate Governance Adviser of NRW.BANK.

## 5 Cooperation between the Managing Board and the Supervisory Board

The Managing Board and the Supervisory Board cooperate closely to the benefit of the Bank. The cooperation between the Supervisory Board as the controlling body and the Managing Board as the managing body is characterised by an open and trusting dialogue in the interest of NRW.BANK and its guarantor, the State of North Rhine-Westphalia. The cooperation at the meetings is complemented by an ongoing exchange, especially between the Chairmen of the Supervisory Board and the Managing Board but also between the Managing Board and the Chairmen of the individual committees.

Regular and comprehensive information of the Supervisory Board by the Managing Board plays a key role in this context. In addition to the regular meetings of the bodies, there is a permanent written exchange of information as well as the close personal exchange mentioned above between the Chairman of the Managing Board and the Chairman of the Supervisory Board as well as the Chairmen of the committees. In particular all relevant issues and changes regarding the business development, planning, risk situation, risk management, compliance and economic environment are communicated in a regular and timely manner. The Supervisory Board is moreover immediately informed of important events, especially those which could significantly influence the situation of the Bank, its liquidity or profitability, its liable equity or the liability of the guarantor.

## 6 Transparency

Creating transparency towards the public, its owner, the supervisory body, investors, customers and employees is of particular importance to NRW.BANK. Transparent and open communication forms the basis for trusting cooperation and sustainable corporate governance with the aim to promote the State of North Rhine-Westphalia.

The Annual Report and the Disclosure Report as well as the financial calendar are published on the website of NRW.BANK. In the context of its investor relations activities, the Bank regularly reports the latest corporate news with a focus on the capital market. Press releases and further publications supplement the comprehensive range of information offered by the Bank.

The Report on Public Corporate Governance as well as the Declaration of Conformity are published both as part of the Financial Report and as a separate document on the website of NRW.BANK.

## 7 Accounting

The annual financial statements and the management report of NRW.BANK are prepared by the Managing Board and audited by the auditor in accordance with the provisions of the German Commercial Code (HGB) and the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV). The obligations regarding immediate notification in accordance with the Public Corporate Governance Code have been agreed with the auditor. The Audit Committee as well as the Supervisory Board discuss the results of the audit with the auditor. The Board of Guarantors resolves on the approval of the annual financial statements, formulates a profit appropriation proposal and appoints an auditor. At the recommendation of the Audit Committee and the proposal of the Supervisory Board and in consultation with the North Rhine-Westphalian Court of Audit, the Board of Guarantors appointed Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, as auditors of NRW.BANK's financial statements for the period ended December 31, 2017. The auditor's statement of independence has been submitted and filed.

## 8 Governmental Control

Government control over NRW.BANK is exercised by the Ministry of the Interior of the State of North Rhine-Westphalia, with respect to social housing promotion in cooperation with the Ministry responsible for Housing. The purpose of this control is to ensure the lawfulness of the activities of NRW.BANK. Since November 4, 2014, the European Central Bank (ECB) has exercised direct

control over NRW.BANK. In this context, the ECB continues to be supported by the Federal Financial Supervisory Authority and Deutsche Bundesbank.

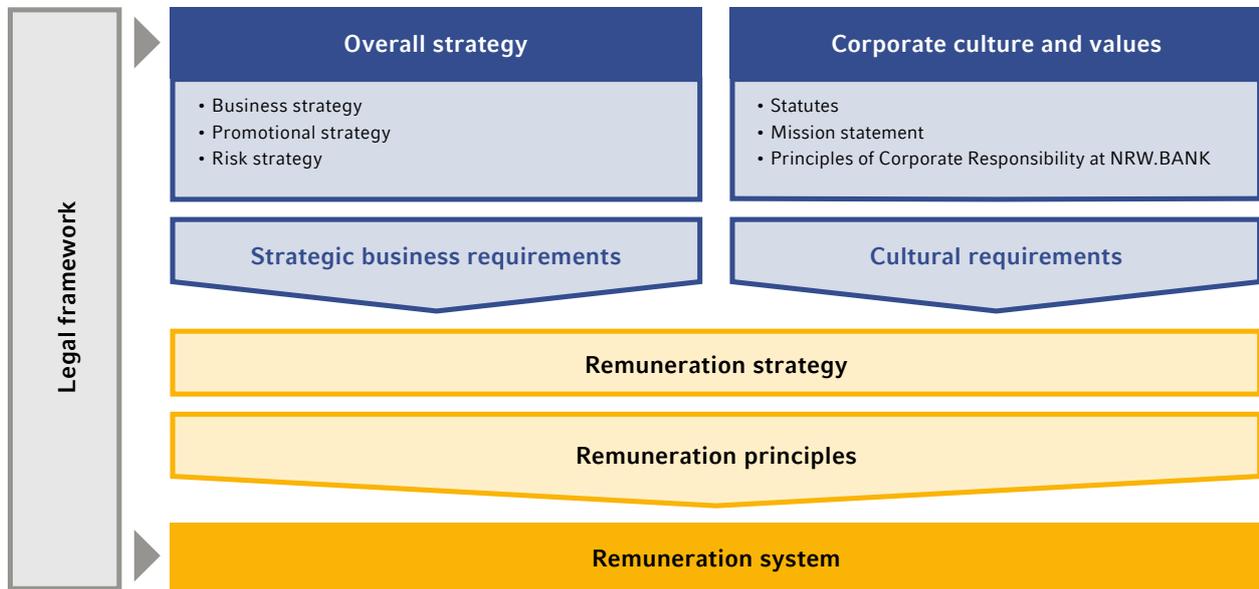
## 9 Remuneration Report

NRW.BANK reports on the key elements of the remuneration systems for its executive and controlling bodies and its employees. This report is in keeping with the requirements of the Bank's internal Public Corporate Governance Code, the North Rhine-Westphalian Transparency Act, the Management Remuneration Act and the Remuneration Ordinance for Institutions (InstitutsVergV) of December 16, 2013 and July 25, 2017, respectively, in conjunction with Article 450 of Regulation (EU) No. 575/2013.

In view of a draft Interpretation Guide to the Remuneration Ordinance for Institutions (InstitutsVergV) which came into effect in August 2017, NRW.BANK changed its variable remuneration into a purely fixed remuneration in consultation with its Joint Supervisory Team (JST) and the representatives of its owner in 2017. This year's Remuneration Report therefore is the last report to contain detailed information about the former variable remuneration components.

### 9.1 Remuneration Strategy and Control

The State of North Rhine-Westphalia is the sole owner of NRW.BANK. Every year, the Bank's Board of Guarantors adopts the principles of the business, promotional and risk policy within the meaning of Section 10 No. 9 of its Statutes, which form the basis of NRW.BANK's strategic positioning as the promotional bank for North Rhine-Westphalia. These principles and the business, promotional and risk strategy derived from them constitute the overall strategy including the strategic business requirements. The remuneration strategy is derived from the above as well as from the corporate culture and values of NRW.BANK. It formulates the remuneration principles of NRW.BANK and defines measures for their implementation. The remuneration strategy thus provides the basis for NRW.BANK's remuneration system.



The above sources result in the following principles for NRW.BANK’s remuneration strategy, which serve to secure the Bank’s sustainable performance:

- **Target-oriented incentives implementing the strategy**  
 The remuneration system creates structures that support the implementation of the targets and objectives defined in the overall strategy. Incentives that help achieve the targets are supported, while disincentives that are opposed to the targets are prevented.
- **Risk orientation**  
 The remuneration system supports NRW.BANK’s consistent conservative risk policy and does not encourage undesirable risk-taking.
- **Resource efficiency**  
 Being the central promotional platform, NRW.BANK’s main task consists in designing the promotional products efficiently and with a minimum impact on the state budget. In the context of its conservative investment strategy, NRW.BANK generates surpluses which are mainly used for the promotional business and to secure the Bank’s performance. The remuneration system considers these principles of a cautiously operating public-law promotional bank. At the same time, NRW.BANK

is subject to all banking-specific requirements and requires employees with the corresponding qualifications.

- **Long-term motivation**  
 NRW.BANK pursues a long-term, sustainable business model and is a future-oriented public-law employer acting in a socially responsible manner. The Bank aims to strengthen the ties with its employees as well as to support their health, their ability to work and their motivation. NRW.BANK is particularly committed to a responsible human resources policy and fair dealings with each other. The motto “internal promotion is preferable to external hiring” underlines the Bank’s sustainable and respectful human resources policy. The remuneration system supports this human resources policy, which is aimed at trusting, long-lasting cooperation and creates incentives for the necessary long-term motivation of the workforce.

These strategic requirements derived from the overall strategy form the framework for NRW.BANK’s remuneration strategy, taking the corporate culture and values into account. This results in the following remuneration principles:

- All elements of NRW.BANK's remuneration system must meet the requirements of the conservative remuneration policy of a competition-neutral promotional bank whose primary objective is not the generation of profits.
- A total remuneration geared to the respective requirements and market environment forms the basis of NRW.BANK's remuneration system to secure the livelihood of its employees and ensure that NRW.BANK remains staffed with qualified employees to meet its bank-specific requirements at all times.
- NRW.BANK's remuneration system comprises consistent and transparent remuneration rules.

These remuneration principles must be fulfilled by all components of NRW.BANK's remuneration system. Amendments to NRW.BANK's remuneration system and their implementation are agreed with an in-house "Remuneration Commission" at least once a year as well as on special occasions. This Commission is composed of the Heads of Internal Audit, Human Resources, Credit Management (back office) and Risk Control, Compliance as well as the "Remuneration Officer" as defined in Section 23 of the Remuneration Ordinance for Institutions (InstitutsVergV). The Heads of Finance and Legal as well as two representatives of the overall Staff Council complement the Remuneration Commission as guests. The tasks and the composition function of the Remuneration Commission have been laid down in NRW.BANK's internal written instructions.

Based on the statement by the Remuneration Commission, the Managing Board decides on amendments to the remuneration system for the Bank's employees. No external advisory services were used in the definition of NRW.BANK's remuneration policy.

The Supervisory Board of NRW.BANK is the responsible main controlling body with regard to the remuneration systems. It decides on the contents and the appropriateness of the remuneration systems for the members of the Managing Board based on a review and recommendation by the Remuneration Committee, which, in turn, is supported by the Remuneration Officer. The same applies to the supervision of the appropriateness of the

remuneration systems for the Bank's employees and to the assessment of the effects of the remuneration systems on the Bank's risk, capital and liquidity situation.

At two meetings in the reporting year 2017, the Supervisory Board addressed remuneration-related issues. The Remuneration Committee as defined in Section 15 InstitutsVergV and Section 25d Para. 12 KWG held three meetings. As of December 31, 2017, this committee was composed of the following members:

- Minister Prof. Dr. Andreas Pinkwart (Chairman), Ministry for Economic Affairs, Digitalization, Innovation and Energy of the State of North Rhine-Westphalia
- Minister Lutz Lienenkämper (Deputy Chairman), Ministry of Finance of the State of North Rhine-Westphalia
- Minister Ina Scharrenbach (Deputy Chairwoman), Ministry of Home Affairs, Municipal Affairs, Construction and Equality of the State of North Rhine-Westphalia
- Director Frank Lill (representative of the employees of NRW.BANK)
- Director Thomas Stausberg (representative of the employees of NRW.BANK)

In accordance with Section 12 Para. 2 of the Statutes, the above ministers may appoint one permanent representative each and invite the latter to take part in the meetings. As of December 31, 2017, the following permanent representatives had been appointed:

- Assistant Secretary Gerhard Heilgenberg, Ministry of Finance of the State of North Rhine-Westphalia
- Under Secretary Karl-Heinz Kolenbrander, Ministry of Health, Equalities, Care and Ageing of the State of North Rhine-Westphalia

In accordance with Section 20 Para. 1 Letter c) of the Statutes, another member was appointed by the Guarantor and invited to the meetings:

- Dr. Birgit Roos, Chairwoman of the Managing Board of Sparkasse Krefeld

## 9.2 General Conditions for Appropriate Remuneration

Ever since its inception, NRW.BANK has, in agreement with its guarantor, geared its remuneration systems and parameters towards its promotional tasks. Against the background of its promotion-oriented character, the Bank bases its remuneration structure exclusively on regionally and/or nationally used remuneration parameters and ensures that the amounts of its remuneration do not exceed the market level for comparable positions. This is examined applying external standards:

- The fixed salary for employees under collective agreements is based on the “Manteltarifvertrag für das private Bankgewerbe und die öffentlichen Banken” (basic collective agreement for private sector and public-sector banks). Two consecutive wage groups are allocated to each position under collective agreement. The lower group represents the entry into the position, while the upper group represents the final target position. In addition, individualised extra pay is possible for each position, which is capped at € 1 below the next higher group. This means that in individual cases, the fixed remuneration may be up to approx. 10% above the respective collective wage group.
- For positions not covered by collective agreements, remuneration comparisons of two consultancy firms, Willis Towers Watson, Frankfurt am Main, and hkp, Frankfurt am Main, are used to determine market indicators for NRW.BANK, which supply benchmarks for the remuneration possibilities. These benchmarks are based on the median of a peer group of German banks previously defined by the Managing Board. The market data obtained are adjusted for obvious extremes, checked against comparable positions within the Bank and reviewed for adequate differentiation from the next higher and lower reporting levels. Salary increases may be decided by the managers only within the limits of these benchmarks. Salaries exceeding these limits are decided by the Managing Board on a case-to-case basis. In accordance with NRW.BANK’s Company Car Directive, business unit and department heads of the Bank may be granted a company car (also for private use in compliance with applicable tax regulations).
- On March 22, 2017, the Supervisory Board decided to change the variable remuneration in the remuneration system of NRW.BANK into a purely fixed

remuneration. The former variable component is replaced by an “annual fixed bonus” which is paid – as the former variable remuneration – on April 1 of the following reporting year, i.e. for the first time on April 1, 2018.

The annual fixed bonus is not linked to collective agreements and does not increase the recipient’s pension entitlement. The variable remuneration of employees who participated in the Bank’s variable remuneration system in the past has been converted. This conversion was made for the members of the Managing Board as well as for all employees not covered by collective agreements and all employees covered by collective agreements with different discounts. The highest discounts were applied to the Managing Board and the lowest to employees covered by collective agreements.

The potential future increases of the annual fixed bonus are lower than for the former variable remuneration. Sustainable developments (seniority, expertise, skills and work experience) will be a precondition for the first-time granting and any future increases of the annual fixed bonus. Going forward, outstanding individual performance will exclusively be recognised within the – non-monetary – motivation concept developed in parallel by NRW.BANK, which focuses on the following three fields of action: promote autonomy, permit development and give recognition. While numerous measures within these fields of action have already been implemented, others are currently being developed and will be implemented in 2018.

## 9.3 Features and Success Factors for the Former Variable Remuneration (Last Paid on April 1, 2017 for the Reporting Year 2016)

In accordance with Section 18 Para. 2 InstitutsVergV, NRW.BANK has, on the basis of Regulation (EU) No. 604/2014 dated March 4, 2014, conducted a risk analysis of employees with material influence on the overall risk profile; in October 2017, the Bank identified 74 “risk takers” – in addition to the Managing Board members and the 14 unit heads – based on their function and/or the amount of their remuneration. These persons are believed to have “material influence on the risk profile of the Bank”, according to the definition under regulatory law. This group of persons includes three employees who have been identified as risk takers only because of their employee representative function

on the Supervisory Board and not because of the tasks they perform at NRW.BANK. The disclosure duties pursuant to Section 16 InstitutsVergV in conjunction with Art. 450 of Regulation (EU) No. 575/2013 exclusively relate to these persons, all of whom are not covered by collective agreements. The information provided below therefore focuses on the Managing Board remuneration and on the remuneration systems for employees not covered by collective agreements, although large parts of the description also apply to employees covered by collective agreements. Pursuant to the Commission Delegated Regulation (EU) No. 604/2014 Article 3 Sentence 1 No. 2 of March 4, 2014 in conjunction with Article 3 Para. 1 No. 8 CRD IV, 13 external members (including the permanent representatives) of the Supervisory Board of NRW.BANK have moreover been identified as risk takers.

The connection between the strategic corporate objectives agreed with the owner and the remuneration system of NRW.BANK required for the variable remuneration last paid on April 1, 2017 was ensured by a systematic planning and assessment process. This planning and assessment process will remain a central component of NRW.BANK's internal management system after 2017: A consistent top-down process ensures that the corporate objectives are communicated to employees at the downstream levels. For this purpose, the individual requirements derived from the strategic corporate objectives are documented in writing in the context of a tasks and objectives planning process at the beginning of the year. The achievement of these objectives is reviewed in an annual feedback process and documented in a performance assessment. The short, medium and long-term objectives of the Bank are laid down in the "Objectives agreement and results assessment" between the Supervisory Board and the Managing Board, in which not only the quantitative objectives but also the material qualitative and content-related objectives of the Bank are agreed. The Managing Board uses the Bank's planning and assessment system to transfer the objectives agreed with the Supervisory Board to the business units. The business unit heads and all senior managers are responsible for transferring these strategic objectives to the employees in an adequate manner using the "PUR" (planning and feedback) appraisal system. Relevant changes occurring in the course of a year must be updated in this system. This way, it is ensured that the planned objectives and tasks

of all employees are adjusted in the event of strategy changes.

In accordance with Section 19 Para. 3 InstitutsVergV, the amount of the provisions for the variable remuneration to be paid out in April 2017 for the previous reporting year was defined by the Managing Board on the basis of a ratio system that reflects the sustainable total performance of NRW.BANK. This quantitative assessment was complemented by the targets agreed between the Supervisory Board and the Managing Board as well as by a qualitative assessment of the overall risk situation, which also takes into account the effects of the payout of the variable remuneration on the risk and capital ratios. The variable remuneration components were paid out only after the responsible bodies have dealt with the annual financial statement. The income statement (to HGB) of the reporting year 2016 formed the basis which justified the creation of appropriate variable remuneration for the members of the Managing Board and all employees of the Bank.

For the reporting years 2011 to 2016, NRW.BANK used a key performance ratio system including an assessment matrix to ensure that the total amount of the variable remuneration was in line with the performance. When measuring the total performance, such ratios were used which reflect the goal of sustainable performance of a promotional bank while considering the risks taken as well as the capital and liquidity costs (total performance ratio: GEK I-III). The actual economic performance achieved was used as a benchmark. The income statement shows a result for the year that reflects all realised gains and losses as well as all discernible anticipated losses (imparity principle). Accordingly, a result in the HGB income statement is always conservative, includes all risk allowances and provisions that are necessary for loss-free valuation (individual allowances, general allowances, provisions) and may thus serve as the basis for the measurement of the total performance in the meaning of the InstitutsVergV. As the net income to HGB may additionally include reserves for future special risks arising from the banking business, these allowance reserves in the income statement first had to be neutralised to calculate the economic performance, as they are not based on any specific discernible risks and thus distort the actual result for the period. The opposite applied when reserves were released. In addition, the promotional and development funds, which were booked

in the commercial balance sheet of NRW.BANK, had to be neutralised. These also act as a burden on the bottom line but are at the same time an important performance feature of a promotional bank (in contrast to a commercial bank). This means that changes in reserves occurring in the course of a year, promotional and development funds spent as well as extraordinary one-time effects outside the regular banking business were taken into account as adjustment items. The result was a total performance ratio of the Bank which included all income and expenses of the period including income and expenses from the risks that had actually materialised or were anticipated in the respective period (GEK I).

In the context of an ex-ante risk adjustment, the resulting performance ratio was then extended

- through the consideration of standard risk costs for anticipated risks (GEK II) as well as
- through the consideration of adequate interest on the economic capital to cover unexpected default, market, liquidity and operational risks (GEK III).

The ratios thus determined were the total performance ratios of NRW.BANK in the meaning of the Instituts-VergV.

According to Section 10 Para. 2 InstitutsVergV, the variable remuneration received by executives shall be based on a multi-year assessment period. NRW.BANK applied this requirement to all employees, as it made more sense for a promotional bank that operates sustainably to assess the remuneration-relevant performance on the basis of a multi-year period instead of the result for an individual year. When weighting the individual annual results, the current assessment period had to have the highest relevance, which subsided over time. A weighted three-year average was thus calculated as follows:

- past reporting year 3/6
- previous reporting year 2/6
- year prior to previous reporting year 1/6

The Interpretation Guide to the Ordinance on the Supervisory Requirements for Institutions' Remuneration

Systems for Section 7 InstitutsVergV stipulated that "In the case of a negative overall performance of the institution, the determination of the total amount of the variable remuneration is generally not permissible". NRW.BANK defined negative overall performance as follows: When all three total performance ratios are negative, no volume or only a very low volume is made available. If the withdrawal from the reserve had increased compared to the previous years, it would have been possible to make available a bonus volume of no more than 25% of the sum total of the base rates for the variable remuneration only on the basis of a detailed qualitative analysis of the reasons for the losses incurred in conjunction with a positive outlook. Regardless of all performance ratios, the total performance of the Bank was defined as negative if the 340f reserves were used up entirely, which means that no variable remuneration would have been fixed for the reporting year.

The identification of the relevant performance and sustainability ratios and their translation into a reasonable, requirements-oriented system for the variable remuneration were the task of Risk Control and Finance in consultation with Human Resources. This was agreed with the Remuneration Commission, which fully supported the procedures.

The total available volume was allocated to the Bank's business units based on a decision by the full Managing Board, which takes into account the achievement of the qualitative and strategic objectives as well as base rates for the variable remuneration. As a general rule, the available volume was not broken down further to sub pools of the business units. Within the department pools, the relative share of each individual was calculated on the basis of their fixed salary and the assessment of the achievement of objectives and their personal performance-relevant behaviour in the context of the annual planning and assessment process described above. This pool model ensured that the maximum volume defined by the Managing Board for the variable remuneration was not exceeded.

NRW.BANK put a cap for the variable remuneration at 40% of the total remuneration (i.e. max. two thirds of the fixed remuneration). This cap could be raised (to no more

than 40.71% in the years 2015 to 2017) in individual cases only if variable remuneration components were deferred in accordance with Section 20 InstitutsVergV (see below). Due to the extraordinarily good result of the reporting year 2016, the average variable remuneration of the employees not covered by collective agreements increased moderately to 22% of the total annual salary in 2016, after it had remained constant at 21% in the previous years. Given NRW.BANK's function as the promotional bank of North Rhine-Westphalia, there was an appropriate relation between the fixed salary and the variable remuneration. The amount of the variable remuneration ruled out a significant dependence of employees on this payment.

Neither the members of the Managing Board nor the employees of NRW.BANK were legally entitled to variable remuneration. Guaranteed entitlements were generally ruled out under NRW.BANK's rules and regulations; individual exceptions were permitted only in exceptional cases and only in the first year of employment.

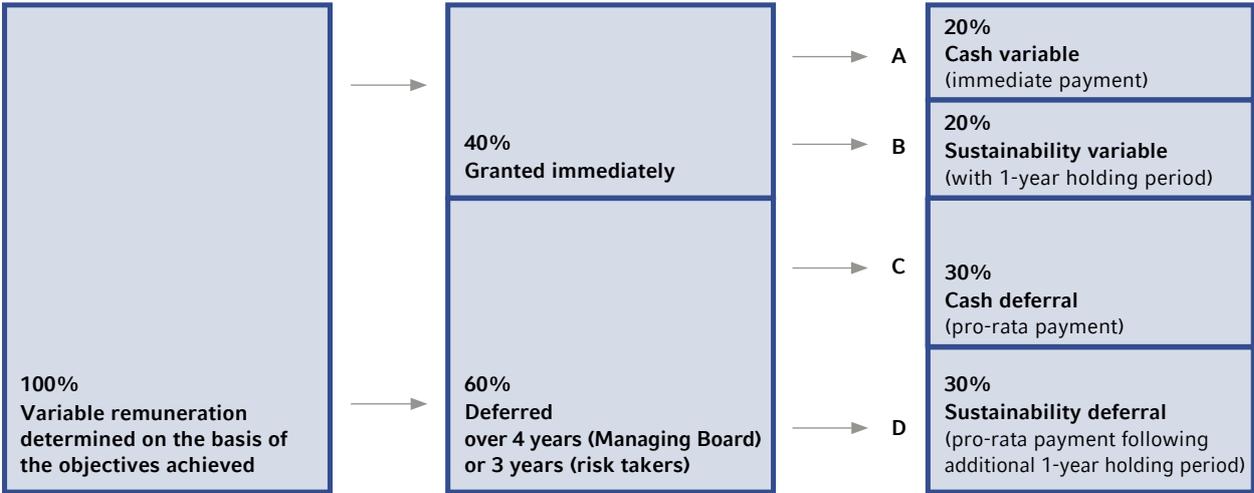
**9.4 Deferral and Payment Conditions**

Irrespective of the change to a purely fixed remuneration system in 2017, all deferred variable remuneration components of earlier reporting years are managed in accordance with the previously applicable provisions of

the Remuneration Ordinance for Institutions (InstitutsVergV) of December 16, 2013 and the respective procedure defined for NRW.BANK:

NRW.BANK has

- for all members of the Managing Board and the risk takers of the 2nd reporting level (business unit heads) as well as for all other risk takers receiving variable remuneration of € 50,000 or more,
- defined a deferral period of four years for Managing Board members and of three years for all other risk takers within the meaning of Section 20 Para. 1 and 2 InstitutsVergV for 60% of the variable remuneration (see C +D in chart below); pursuant to Section 20 Para. 5 InstitutsVergV in conjunction with Section 19 Para. 2 InstitutsVergV, these deferred amounts are subject to a differentiated malus rule, which may lead to a reduction or complete cancellation of the variable remuneration within the deferral period,
- with an additional one-year period for assessing the sustainable value increase of the Bank having been fixed for 50% each of the directly granted variable remuneration and the deferred variable remuneration within the meaning of Section 20 Para. 4 InstitutsVergV (see B +D in chart below).



The malus reservation relates to individual misbehaviour, serious mistakes resulting in considerable losses (caused by individuals or groups of employees) as well as to Bank-wide performance ratios. Individual misbehaviour (including undutiful and unethical behaviour) was linked to labour law definitions and differentiated by degrees of severity. Serious mistakes were divided into mistakes falling under operational risks and mistakes resulting from the lending business, equity investments and price losses. As soon as differentiated threshold values were exceeded, an investigation by Risk Control and other independent control units was triggered. A Bank-wide malus is applied – also in defined steps – when the reserves established for anticipated losses are fully used up and/or as soon as regulatory capital is consumed; as a strict side condition, compliance with a minimum solvability coefficient (Pillar I) and a minimum buffer for higher future requirements (Pillar II) is assumed. The Managing Board decides on the extent of the malus application based on a recommendation by a “malus commission”, which is composed of the heads of internal control units and the Remuneration Officer. The permanent representative of the Chairman of the Supervisory Board is invited to attend the meetings of the malus commission as a guest. This way, the Remuneration Committee and the Supervisory Board have a complete overview of events resulting from banking business which may lead to a malus examination with respect to the Managing Board of NRW.BANK.

The requirements for payment of the variable remuneration components that are subject to the sustainability arrangement are considered to be met when the net asset value of NRW.BANK as of December 31 of a year is not lower than at the beginning of that year. The basis is formed by the “adjusted basic net asset value at the beginning of the year”, which is composed of balance sheet equity plus free allowance reserves adjusted for owner-initiated capital changes. It is compared with the “net asset value at the end of the year”, which is also adjusted for defined adjustment items. If the net asset value at the end of the year is below the adjusted basic net asset value at the beginning of the year, the variable remuneration components that are subject to the sustainability arrangement are discounted at pre-defined steps (5 to 100%), depending on the amount by which the year-end net asset value is below the net asset value at the beginning of the year.

### 9.5 Composition of the Managing Board Remuneration

The remuneration of the Managing Board is regularly reviewed for appropriateness. For this purpose, NRW.BANK participates in an annual comparison of Managing Board salaries performed by an external remuneration consulting firm. This comparison covers the market data of Germany’s top 30 banks, with the data of the banks directly participating in the remuneration comparison complemented by additional information taken from the annual and remuneration reports. Based on the total remuneration received by the Managing Board members of this peer group, the remuneration received by the Managing Board of NRW.BANK is clearly below the median. Compared to other large promotional banks the Managing Board remuneration of NRW.BANK is at a medium level.

In accordance with the InstitutsVergV, the actual variable remuneration of the Managing Board – similar to the variable remuneration of the risk takers – for the past reporting year had previously been defined on the basis of the Bank’s total performance ratios, a qualitative overall risk assessment and the achievement of the complementary objectives agreed with the Supervisory Board and limited by a cap for variable payments defined by the Bank. For the reporting year 2017, i.e. the payment on April 1, 2018, it had already been agreed to replace the former variable component by an annual fixed bonus also for the Managing Board members of NRW.BANK. To this end, the Supervisory Board defined the annual fixed bonus for the members of the Managing Board based on the former variable remuneration and taking a discount into account in March 2017.

The objectives agreed with the Supervisory Board reflect the special demands made on a promotional bank and take into account that the generation of profits is not the main business purpose. In accordance with the corporate policy, which is geared to the sustainable development of the North Rhine-Westphalian economy, the local municipalities and the people in the state, the agreed objectives are divided into core tasks of the Bank as well as ratios. All objectives are derived from the bank strategy. They reflect the “principles of the business, promotional and risk policy” adopted by the Board of Guarantors and the regulatory requirements. This process will be maintained after conversion to a purely fixed remuneration.

In the past reporting year, the variable payments for the reporting year 2016 were, in accordance with Section 20 InstitutsVergV, again subject to the Bank's sustainable total performance. Payment of these amounts will be deferred over a period of five years (deferral and sustainability component).

The partial amounts of the variable remuneration for the reporting years 2013 to 2016 that are subject to the sustainability and malus arrangement reserve and due in April 2018 will be paid out following the respective review and decision by the Bank's responsible bodies in the first quarter of 2018. For a detailed presentation of the remuneration received by the individual Managing Board members, refer to page 97 in the notes.

Following the Supervisory Board's decision to replace the variable remuneration by an annual fixed bonus, the employment contracts of all Managing Board members were amended accordingly.

This means that the bonus fixed for the reporting year 2016 and paid in part in April 2017 is the last variable remuneration that was decided for the Managing Board members of NRW.BANK. Irrespective of this decision, the deferred parts of the variable payments made in previous years will be assessed in accordance with the process described under point 9.5 and paid out to the extent that the preconditions are met.

With effect from July 1, 2017, the Supervisory Board additionally implemented the purchasing power adjustment to be contractually effected for Mr Stölting every three years.

In the event of an inability to work caused by an accident or illness, all four Managing Board members are entitled to their fixed annual salary for an indefinite period but no longer than up to the end of their employment. Thereafter, a benefit for invalidity will be paid depending on the individual pension commitment for the respective member. The members of the Managing Board are not entitled to pension if the Bank terminates the employment relationship for reasons attributable to the Managing Board members.

In case of a premature resignation without serious cause, Mr Forst and Ms Pantring will receive no more

than the remuneration for the remaining term of their contracts. The total amount of the payments including potential fringe benefits is capped at an amount equivalent to the remuneration for a maximum of two years.

If the contract of Mr Forst is not renewed before he turns 62 and this is not his fault and he is still able to work, he may apply for early retirement benefits after having reached the age of 62, whose payment will end once he receives his statutory pension but no later than after having reached the age of 66 plus two months.

After the end of the employment relationship, Mr Stölting and Mr Suhlrie will receive a life-long pension, in analogy to the pension granted in the event of invalidity.

The members of the Managing Board are entitled to pension benefits as they reach the age of retirement or in case of invalidity. In the event of their death their dependants are also entitled to benefits. All commitments are contractually unforfeitable or unforfeitable by law because of the number of years served. Mr Forst, Mr Suhlrie and Ms Pantring benefit from a contribution-linked pension commitment. In the context of this pension commitment, personal pension accounts with a starting component have been set up for them, into which annual pension components are paid. The pension component is calculated at an individual contribution rate on the basis of 69% of the fixed annual salary. Each pension account carries an individual interest rate. At the time the insured event occurs, the pension capital built-up in the account – in the event of invalidity, plus additional components, if applicable – is actuarially converted into a pension.

Mr Stölting benefits from a pension commitment pursuant to the German Civil Servant's Pension Act (Beamtenversorgungsgesetz) as amended from time to time. Depending on the number of pensionable service years, the maximum pension entitlement is 71.75% of the pensionable salary reachable at the age of 65. The pensionable salary is 69% of the fixed annual salary. The amount of the pension in the event of invalidity depends on the entitlement achieved as well as on the additionally agreed attributable period credited at the time the insured event occurs. In the case of Mr Stölting, the pension from the statutory pension insurance and the pension from additional pension

insurance will be counted towards the pension no earlier than from the time they are granted.

After the death of a Managing Board member, their dependants receive a reduced pension. Widows receive up to 60% of the pension. The children of the Managing Board members are entitled to 20% of the pension if they are orphans and to 12% of the pension if they have lost one parent.

While the pension benefits paid out to Mr Forst, Mr Suhlrie and Ms Pantring will be increased by 2.0% p. a., the pension paid to Mr Stölting will be adjusted in accordance with the linear changes applicable to pensions paid by the state of North Rhine-Westphalia. As Mr Stölting benefits from commitments that are similar to those for civil servants, he is exempted from statutory pension insurance but will receive benefits as defined in the North Rhine-Westphalian "Beihilfeverordnung" in the event of illness. Ms Pantring will receive benefits in the event of illness on the same basis.

The expenses for the pensions of the Managing Board members and the present values of the obligations are shown in the notes on page 98.

## 9.6 Remuneration of the Members of the Supervisory Board

The concept of a remuneration structure which is not dependent on the business performance primarily

reflects the underlying idea according to which the generation of profits is not the primary business objective. The remuneration of the Supervisory Board and its committees consists of a work remuneration that is unrelated to the meetings held depending on committee membership and an additional meeting-related fee. No distinction is made between a member, the vice chairperson or the chairperson. Besides this remuneration, travel expenses incurred by mandate holders are adequately refunded. The payment of value added tax depends on the respective tax status of the individual members. Besides the remuneration paid to the members of the Supervisory Board, the members of the Board of Guarantors, the Advisory Board for Housing Promotion, the Advisory Board of NRW.BANK and the Parliamentary Advisory Board also receive individual remuneration on the basis of the resolution passed by the Board of Guarantors. The respective remuneration complies with the principles above, but the absolute amount varies based on the different tasks and specific responsibilities. An itemised disclosure of the remuneration received by the individual members of the Supervisory Board, the Board of Guarantors and the Advisory Board can be found in the notes to the Financial Report (page 99 et seq.).

## 9.7 Disclosure Pursuant to Art. 450 of Regulation (EU) No. 575/2013 No. 1 g et seq.

### 9.7.1 Quantitative Information Regarding the Remuneration of the Risk Takers on the Managing Board

### Composition of the Remuneration for the Year 2017

Non-performance-linked remuneration			Performance-linked remuneration	Total remuneration	Remuneration for mandates <sup>3)</sup>	Number of risk takers
Fixed remuneration	Other benefits <sup>1)</sup>	Company pension scheme <sup>2)</sup>	Variable remuneration for the year 2016, committed in 2017			
€ 1,957,236	€ 125,342	€ 978,126	€ 471,000	€ 3,531,704	€ 101,347	4

<sup>1)</sup> Non-monetary benefits in money's worth, benefits in kind, statutory social security contributions and benefit payments

<sup>2)</sup> Direct commitment, shown is the allocation to provisions including interest expenses for the year 2017

<sup>3)</sup> Remuneration received in 2017 for mandates / shown incl. VAT, pro-rated recognition for new entries / departures in the course of the year

Both the fixed remuneration and the variable remuneration are paid in cash. There is no compensation in the form of shares or similar instruments. Only the other benefits comprise remuneration components in the form of non-monetary benefits (primarily company cars for private use).

### Complementary Information Regarding the Variable Remuneration

	Amount <sup>1)</sup>	Number of risk takers
Variable remuneration for the year 2016, committed in 2017	€ 596,000	5
– thereof paid out in 2017	€ 259,200	5
– thereof committed in 2017 but not paid out because of sustainability arrangement	€ 84,200	4
– thereof deferred	€ 252,600	4
Deferred variable amounts from the years 2012 – 2015	€ 722,100	4
– thereof vested by 2017 and paid out in 2017	€ 276,900	4
– thereof vested in 2017 but not paid out because of sustainability arrangement	€ 125,400	4
– thereof not yet vested in 2017	€ 319,800	4
– thereof reduced in 2017	€ –	0

<sup>1)</sup> Including variable remuneration for Managing Board members who have resigned from the organisation

### Information Regarding Other Remuneration Benefits

	Amount	Number of risk takers
Guaranteed payments pursuant to Section 5 Para 5 IVV made in 2017 <sup>1)</sup>	€ 175,000	1
Severance payments made in 2017	€ –	0
– thereof single highest amount	€ –	0
Persons whose remuneration in 2017 exceeded € 1.0 million	€ 2,076,927	2

<sup>1)</sup> Included in the above information regarding the variable remuneration

For a breakdown of the payments to the Managing Board members by names, please refer to page 97 of the notes.

## 9.7.2 Quantitative Information Regarding the Remuneration of the Risk Takers outside of the Managing Board and the Supervisory Board

### Composition of the Remuneration for the Year 2017

	Non-performance-linked remuneration			Performance-linked remuneration	Total remuneration	Remuneration for mandates	Number of risk takers <sup>1)</sup>
	Fixed remuneration	Other benefits <sup>2)</sup>	Company pension scheme <sup>3)</sup>	Variable remuneration for the year 2016, committed in 2017			
Programme-based Promotion	€ 2,343,098	€ 376,476	€ 949,673	€ 720,900	€ 4,390,147	€ 20,818	19
Other Promotion/ Liquidity Management	€ 3,465,948	€ 372,687	€ 1,101,412	€ 1,544,563	€ 6,484,610	€ –	30
Staff/Services	€ 4,780,400	€ 702,870	€ 1,710,403	€ 1,551,676	€ 8,745,349	€ –	35
<b>Total result</b>	<b>€ 10,589,446</b>	<b>€ 1,452,033</b>	<b>€ 3,761,488</b>	<b>€ 3,817,139</b>	<b>€ 19,620,106</b>	<b>€ 20,818</b>	<b>84</b>

<sup>1)</sup> Employees who were identified as risk takers in 2017, incl. new entries / departures in the course of the year (excl. Managing Board), assignment to the segment as at Dec. 31, 2017 or as at the last day of the assignment

<sup>2)</sup> Benefits in kind, non-monetary benefits in money's worth, statutory social security contributions and benefit payments

<sup>3)</sup> Essentially direct commitments showing also the allocation to provisions including interest expenses for the year 2017

Both the fixed remuneration and the variable remuneration are paid in cash. There is no compensation in the form of shares or similar instruments. Only the other benefits comprise remuneration components in the form of non-monetary benefits (primarily company cars for private use).

### Complementary Information Regarding the Variable Remuneration

	Amount <sup>1)</sup>	Number of risk takers
Variable remuneration for the year 2016, committed in 2017	€ 4,018,739	90
– thereof paid out in 2017	€ 2,475,988	90
– thereof committed in 2017 but not paid out because of sustainability arrangement	€ 385,688	32
– thereof deferred	€ 1,157,063	32
Deferred variable amounts from the years 2012 – 2015	€ 2,215,066	33
– thereof vested by 2017 and paid out in 2017	€ 745,957	33
– thereof vested in 2017 but not paid out because of sustainability arrangement	€ 422,426	33
– thereof not yet vested in 2017	€ 1,046,683	32
– thereof reduced in 2017	€ –	0

<sup>1)</sup> Including variable remuneration and deferred amounts for risk takers who have resigned or retired from the organisation

## Information Regarding Other Remuneration Benefits

	Amount	Number of risk takers
Hiring bonuses paid or guaranteed payments made in 2017	€ –	0
Severance payments made in 2017	€ –	0
– thereof single highest amount	€ –	0
Persons whose remuneration in 2017 exceeded € 1.0 million	€ –	0

### 9.7.3 Quantitative Information Regarding the Remuneration of the Risk Takers on the Supervisory Board

#### Composition of the Remuneration for the Year 2017 for Persons Identified as Risk Takers on Account of Their Membership of the Supervisory Board

	Non-performance-linked remuneration	Performance-linked variable remuneration <sup>1)</sup>	Total remuneration <sup>1)</sup>	Number of risk takers <sup>2)</sup>
Members of the Supervisory Board pursuant to Section 12 Para. 1 Letters a – d, Para. 2 of the Statutes	€ 249,833	€ –	€ 249,833	12
Members of the Supervisory Board pursuant to Section 12 Para. 1 Letter e of the Statutes (staff representatives)	€ 95,200	€ –	€ 95,200	5

<sup>1)</sup> Including remuneration for risk takers on the Supervisory Board who resigned during the course of the year

<sup>2)</sup> Number of risk takers on the Supervisory Board as of December 31, 2017

Where staff representatives have been identified as risk takers, the remuneration they receive for this activity is shown in the tables under point 9.7.2. For a breakdown of the remuneration by names, please refer to the Notes, page 99.

# Declaration of Conformity

The Managing Board and the Supervisory Board of NRW.BANK jointly declare that the Bank essentially complied with the recommendations of the Public Corporate Governance Code of NRW.BANK in 2017. Necessary deviations from the recommendations are made transparent and justified below in accordance with Clauses 1.3.5 and 1.4 of the Code.

## **Submission of Resolution Proposals to the Supervisory Board**

Contrary to Clause 5.1.5, documents required for decisions were, in exceptional cases, submitted to the members of the Supervisory Board less than 14 days prior to the meeting. This was due, for instance, to current developments or the close timing of the committee and Supervisory Board meetings. Due to the availability of the Managing Board for answering questions, the preparation of the Supervisory Board meetings by the Executive and Nomination Committee and the possibility for extensive consultations at the meetings, it is nevertheless ensured that all issues are addressed in sufficient detail.

The Managing Board and the Supervisory Board of NRW.BANK remain committed to the Public Corporate Governance Code and intend to comply with its recommendations also in future unless transparent and justified exceptions appear sensible and necessary.

NRW.BANK  
March 2018

The Managing Board  
The Supervisory Board

# Report of the Supervisory Board

In accordance with the tasks imposed on it by law, the Statutes and the Public Corporate Governance Code, the Bank's Supervisory Board held five meetings – including one extraordinary meeting – and one written vote in the fiscal year 2017. Another 19 meetings were held by the Committees composed of the members of the Supervisory Board; the Executive and Nomination Committee held five meetings – including one extraordinary meeting – as well as one written vote, the Risk Committee held five meetings – including one extraordinary meeting – and one written vote, the Audit Committee held two meetings and one written vote, the Promotional Committee held four meetings – including one extraordinary meeting – as well as two written votes and the Remuneration Committee held three meetings – including one extraordinary meeting – and one written vote.

The Supervisory Board monitored the proper conduct of the business and obtained regular reports on the latest business developments and the risk situation. It discussed and approved all transactions requiring its approval in accordance with legal or statutory provisions and addressed important matters of business policy in detail.

In accordance with regulatory requirements and the provisions in the Statutes, the Supervisory Board addressed the business, promotional and risk strategy for the years 2018 to 2021, which had previously been discussed by the Promotional Committee and the Risk Committee.

The principles of the business, promotional and risk policies were submitted for approval to the Board of Guarantors, which is the competent body under the Bank's Statutes.

At its meeting on November 24, 2017, the Board of Guarantors approved the proposed strategy.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft carried out the audit of the financial statements for 2017

and the management report and issued an unlimited audit opinion.

The Supervisory Board and the Audit Committee formed from among its members discussed in detail the financial statements of NRW.BANK and the report of the external auditors on the results of their audits. Following the final result of the audit, they raised no objections.

At its meeting on March 19, 2018, the Supervisory Board approved the financial statements and the management report established by the Managing Board and proposed that the Board of Guarantors approve the financial statements for the year 2017.

The Non-Financial Report 2017 was submitted to a voluntary audit by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and deemed lawful and appropriate in light of the result of the audit. As in the previous years, no consolidated financial statements were prepared, as the Bank is not obliged to do so under commercial law.

The formation of a new North Rhine-Westphalian government in June 2017 also resulted in changes to the bodies of NRW.BANK. On August 9, 2017, the undersigned was appointed Chairman of the Supervisory Board. The Supervisory Board of NRW.BANK would like to thank the members who have resigned from this body, especially former State Minister Garrelt Duin, who served as Chairman, for their constructive work, which helped take NRW.BANK forward as the development bank of North Rhine-Westphalia.

Düsseldorf/Münster, March 2018



Prof. Dr. Andreas Pinkwart  
Chairman of the Supervisory Board

# Management Report

## of NRW.BANK for the Fiscal Year 2017

### 1 Fundamental Information about NRW.BANK as the Promotional Bank of North Rhine-Westphalia

NRW.BANK is the promotional bank of North Rhine-Westphalia (NRW). It has the public mission to support its sole owner and guarantor, the State of North Rhine-Westphalia, in the completion of its structural and economic policy tasks. NRW.BANK conducts its activities in accordance with commercial principles, taking into account the public welfare on a non-competitive and non-profit-oriented basis. To meet its promotional mission, NRW.BANK draws on the full range of available promotional instruments and, in particular, contributes its lending expertise to the promotional process.

#### 1.1 Business Model

The business model of NRW.BANK supports the sustained fulfilment of its public promotional mission and is that of a largely budget-independent promotional bank. According to the "Act on NRW.BANK", it is a legally independent promotional bank engaging in competition-neutral structural and promotional business which permanently benefits from institutional and guarantor liability as well as from an explicit statutory funding guarantee from its guarantor. This enables NRW.BANK to make available the required liquidity at short notice at any time. To complete its mission, NRW.BANK uses the resulting possibilities for funding in the international capital market, where the Bank

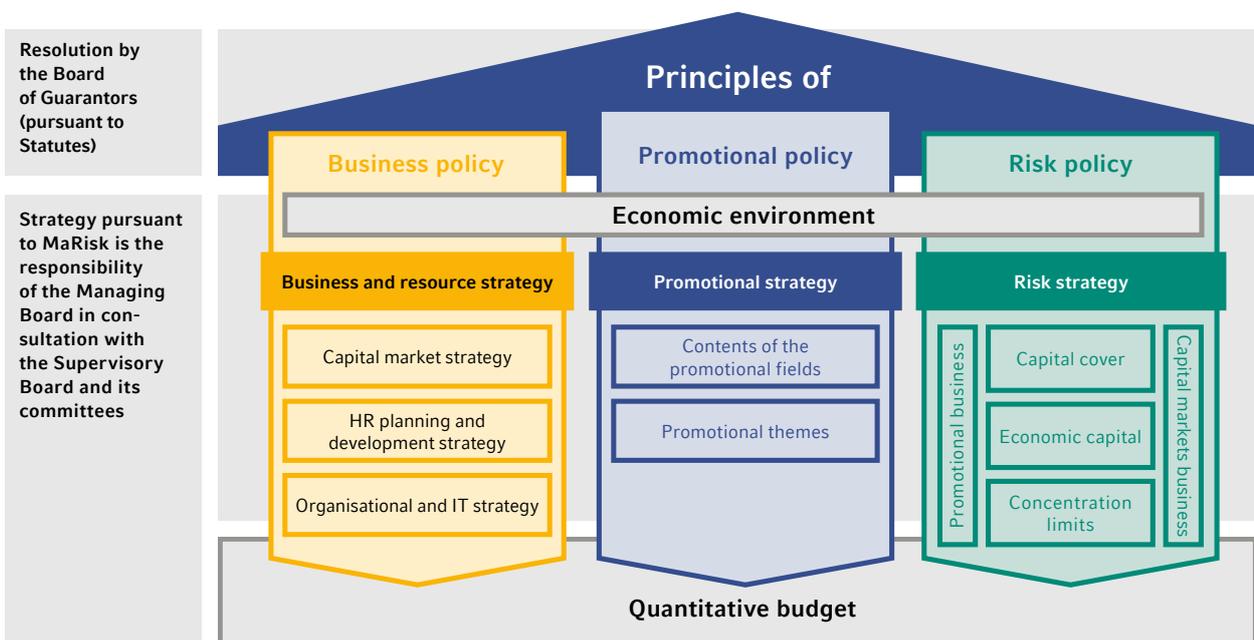
has established itself as a reliable market participant. NRW.BANK generates its own income within the parameters of its conservative investment strategy. This income is used to finance the promotional business, to secure the viability of the Bank, also with regard to the creation of its own, non-interest-bearing provisions and reserves, and to finance the banking operations. The use of own resources, e.g. to reduce the interest rates on promotional loans, is a key aspect of NRW.BANK's business model. Its promotional instruments primarily include promotional loans, equity finance as well as advisory services. NRW.BANK takes into account the existing offers by the Federal Government, the North Rhine-Westphalian government and the European Union in the arrangement of its promotion.

#### 1.2 Objectives and Strategies

The Bank's activities are geared towards sustainability. For details, refer to the Sustainability Guidelines established in early 2018 to replace the former "Principles of Corporate Responsibility at NRW.BANK".

The Managing Board of NRW.BANK liaises closely and constantly with the Bank's executive bodies and ensures the appropriate degree of transparency in implementing and refining its tasks and strategy.

The overall bank strategy is composed of the principles adopted by the Board of Guarantors according to the



Statutes and of the actual strategy being in the responsibility of the Managing Board pursuant to the Minimum Requirements on Risk Management (MaRisk). The principles of the business, promotional and risk policy define the framework of strategic action. The business, promotional and risk strategy puts the strategic positioning of the Bank which is defined in the principles into more concrete terms and leads to a multi-year quantitative budget.

Heart of the overall bank strategy is the promotional strategy reflecting the special importance of the promotional business. The business strategy defines the capital market strategy as well as its sub-strategies, i.e. treasury strategy, funding strategy and investment/trading strategy, as well as resource-related aspects such as human resources and IT. The risk strategy addresses the risk-relevant aspects of the strategy and is closely linked with the promotional and business strategies.

The overall bank strategy is geared to NRW.BANK's public mission to support the State of North Rhine-Westphalia and its local and regional governments in completing their tasks. Material business activities as defined in the Minimum Requirements on Risk Management (MaRisk) are the promotional business and the capital market business.

NRW.BANK's promotional business remains qualitative and theme-oriented. Since the beginning of 2017, the promotional services are provided in the three promotional fields "Economy", "Housing" as well as "Infrastructure/Municipalities", which are divided into promotional themes. The implementation of the energy transition as well as environmental protection measures represent a cross-sectional theme that is addressed in all three promotional fields. Objectives and measures defined for each of these promotional themes are put into practice using specific promotional offers.

The key objectives and measures of the promotional strategy include the promotion of corporate investments, the promotion of corporate innovation and digitalization efforts, social housing promotion as well as assistance to North Rhine-Westphalia's municipalities in completing their tasks, e.g. the maintenance, expansion and modernisation of the educational infrastructure. The Bank also supports measures aimed at

implementing Germany's energy transition and at protecting the environment, the promotion of neighbourhood developments as well as promotional activities benefiting the technical and social infrastructure. In this context, NRW.BANK remains committed to constantly refining its promotional products and processes with a view to increasing the efficiency of its promotional activities.

The promotional strategy is implemented in the "Programme-based Promotion" segment and the "Other Promotion/Liquidity Management" segment. The Programme-based Promotion segment comprises the business units Promotion Programmes, Housing Promotion, Promotion Programme Advisory Services & Customer Service as well as Corporate Finance & Infrastructure Finance. The Other Promotion/Liquidity Management segment consists of the business unit Capital Markets including direct loans for municipalities.

Starting 2017, NRW.BANK prepares a non-financial report pursuant to Section 289c HGB, which is available at: <http://www.nrwbank.de/en/press/publications.html>

In this context, please also refer to the Bank's Sustainability Report, which will be published as of June 30, 2018.

### 1.3 Internal Management System

For its internal management, NRW.BANK generally uses controlling concepts and methods which have proven their worth and are commonly used in the banking sector. NRW.BANK's objectives are primarily geared to providing its guarantor, the State of North Rhine-Westphalia, with long-term support in performing its structural and economic tasks.

Due to NRW.BANK's public mission as the promotional bank of North Rhine-Westphalia, promotion is the primary business objective.

The preservation of the Bank's net asset value has been designated as a key condition for the Bank's internal management. NRW.BANK defines the net asset value as the equity capital shown in the balance sheet with all its components plus allowance reserves.

Reflecting the public promotional mission, the volume of new commitments represents a key performance

indicator used for controlling purposes. Other banking performance indicators include operating income, administrative expenses, total assets and the business volume as well as economic capital in the context of the risk-bearing capacity calculation. For all key performance indicators, there are defined budget values which are regularly subjected to plan/actual comparisons as well as scenario and forecast analyses in order to provide appropriate control stimuli.

The volume of new commitments comprises the commitments for promotional funds made in the current fiscal year. Operating income comprises net interest income and net commission income as well as net result from trading portfolio and the other operating result. Administrative expenses comprise personnel expenses as well as operating expenditure. The business volume comprises total assets, contingent liabilities, other commitments as well as administered funds.

Being subject to the Capital Requirements Regulation (CRR), NRW.BANK is obliged to disclose its return on investment, which is calculated as the quotient of net profit and total assets, in accordance with Section 26a Para. 1 Sentence 4 KWG (German Banking Act). As of December 31, 2017, NRW.BANK's return on investment was 0%; this ratio does not play a decisive role for NRW.BANK as due to its status as a promotional bank profit generation is not the key objective of NRW.BANK. Any income generated is used for promotional purposes, the maintenance of the bank operations and the creation of allowance reserves.

Bank-wide limits are defined for economic capital as determined in the context of the calculation of the risk-bearing capacity.

## 2 Report on Economic Position

### 2.1 Economic Climate

#### 2.1.1 The German Economy

The German economy is experiencing a dynamic upswing, which accelerated notably in the past year, when the gross domestic product (GDP) growth rate accelerated notably to 2.2% (not adjusted for the number of working days). Adjusted for such calendar-related effects, the growth rate was even higher at 2.5%, as

there were fewer working days in 2017 than in the previous year.

A material contribution to growth came from the German manufacturing sector's expansion at above-average rates compared to other sectors. The upturn, which had previously been driven mostly by private consumption and the construction sector, was thus put on a broader basis.

Besides the domestic forces, stronger stimulation also came from abroad. The fears that protectionist measures would strongly affect world trade in 2017 did not come true. The upturn in the world economy – in conjunction with higher investment activity – has accelerated since the beginning of 2017. Germany's export-oriented companies benefited from the resulting increase in world trade and were additionally able to win significant market shares. Compared to 2016, exports were up by approx. 4.7% (2016: +2.6%). The improved economic situation in the eurozone was particularly helpful, whereas the appreciation of the euro had an adverse effect on the price competitiveness of German products outside the eurozone. On the other hand, however, the strong euro caused imports to increase even more strongly than exports. The cyclically strong domestic demand was the main reason for the high import growth.

Against the background of the booming manufacturing sector and growing capacity utilisation, industrial investment continued to recover notably in the summer half-year, as companies primarily stepped up their spending on plant and machinery. This means that private enterprises, in particular, gave up their spending restraint in 2017, whereas government spending remains subject to strong fluctuations because of large-scale projects. The high investment propensity was additionally supported by the fact that the strongly expansionary monetary policy made it easier to raise loans. Besides spending on plant and equipment, construction spending also picked up sharply. Reflecting the tight housing market situation in the densely populated areas, private housing construction showed a particularly dynamic trend. The housing property market continues to be characterised by high (regional) surplus demand. The fact that the underlying momentum of the demand for housing remains expansionary

is not least attributable to the favourable income prospects of private households and to low financing costs. Additional stimulation is provided by the labour market-oriented migration and the growing concentration of the population in the conurbations in the past years.

Private consumption continued to benefit from the cyclically induced good labour market trend. The number of people subject to social insurance contributions increased by a strong 722,000 to 32.17 million. As the growing employment of the domestic population and the migration of foreign labour offset negative demographic effects, the number of people in employment reached the highest level since German reunification, at 44.3 million in 2017. This means that employment has expanded dynamically for the twelfth consecutive year. At the same time, the average annual number of unemployed declined for the fourth year in a row. The jobless rate dropped from 6.1% in 2016 to 5.7% in 2017 and companies' demand for new staff picked up once again. But not only were more jobs created, real wages also increased. Compared to the previous year, however, the gain was less dynamic because of the higher inflation. The temporarily much lower oil price and the appreciation of the euro nevertheless had a positive effect for consumers.

The government surplus rose sharply in 2017, mainly due to the fact that government consumption went up less strong than initially expected in both real and nominal terms. This is mainly attributable to the declining influx of refugees, which slowed down the rise in social non-monetary benefits paid by social insurance carriers. Tax revenues also went up sharply. It is remarkable that a strong surplus was posted although the services provided under the social nursing care insurance were expanded notably in the context of the nursing care reform and more people were employed in the educational sector and the public security sector. The government debt ratio (the ratio of gross federal, state, municipal and social security debt to GDP) dropped from 68.1% in 2016 to 64.8%, which means that it continues to move in the direction of the 60% limit defined in the Maastricht Treaty.

The appreciation of the euro had a dampening effect on inflation as it reduced the prices of imported goods and

intensified the temporary drop in the oil price for German consumers. On balance, however, inflation in Germany accelerated notably in 2017 compared to the previous year (2016: 0.4%). At 1.8%, the average annual rate of inflation reached a five-year high. A strong increase in prices had been expected not least because of the statistical effects of the oil price slump in the first months of 2016. Food prices led to additional upward pressure in the course of the year. As GDP stood above the trend rate of growth and production capacities were partly over-utilised, core inflation (excluding energy and food prices) also picked up in the second half of the year. By contrast, wages and salaries as well as unit wage costs again exerted hardly any pressure on consumer prices. The growing digitalization and the ongoing globalisation are currently being discussed as two of the potential reasons for this trend.

### **2.1.2 The North Rhine-Westphalian Economy**

North Rhine-Westphalia is not only by far the most populous German state but also holds a leading economic position in the country, as reflected in its 21.4% contribution to GDP and to employment.

2017 was an extremely positive year for the North Rhine-Westphalian economy. Having previously lagged behind for several years, the state caught up with the nationwide growth trend in the first half of the year. During this period, regional GDP moved in sync with the Germany-wide average and grew by 2.0%, which was the highest growth rate since 2011.

The economic upswing rests on a broad foundation. The strong stimulation provided by the state's key industrial sectors is especially noteworthy. According to the results of the NRW.BANK.ifo Business Climate, capacity utilisation in the chemicals and pharmaceutical industry, the metals sectors and the mechanical engineering industry increased sharply. Apart from high domestic demand, companies also benefited considerably from the upturn in the world economy. After years of stagnation, they exported more than in the previous years, also due to the economic momentum in the eurozone. The latter benefits NRW particularly strongly, as an above-average percentage of exports goes to neighbouring countries. By contrast, the declining production of motor vehicles and motor vehicle components as well as stagnating furniture production

had a dampening effect. At the bottom line, industrial output grew dynamically for the first time since 2011.

As a result of the high demand for housing in many regions of the federal state, the increased government infrastructure measures and the recent sharp rise in capital spending, construction activity picked up notably compared to the previous year. The housing construction sector with its strong production growth is a good example. Nevertheless new housing construction is still clearly below the estimated need for new housing, especially in the growing conurbations. Rents and property prices remain on the increase and the supply of affordable housing continues to decline. The federal state's social housing promotion activities ensure that part of the new housing construction activity takes place in the low-price segment.

Over the past years, the services sectors made a constant contribution to economic growth in North Rhine-Westphalia. This was also the case in 2017, when revenues in the corporate services sector rose sharply and in sync with Germany-wide average. Retail and wholesale revenues also picked up notably. This trend is attributable to ongoing employment growth, which supports private consumption.

As a result of the good economy, the situation in the North Rhine-Westphalian labour market improved as well. Demand for labour picked up further in 2017. New jobs subject to social insurance contributions were primarily created in the services sectors. As a result, the jobless rate declined notably in the course of the year and stood at 7.0% in December 2017. As reflected in NRW.BANK's "Regionalwirtschaftliche Profile" (regional economic profiles), great differences existed between the regions (Coesfeld: 2.7%, Gelsenkirchen: 13.7%). The reduction in long-term unemployment and the integration of low-skilled labour will remain the key challenges.

### 2.1.3 Financial Markets

Following two years of declining global growth rates and a continuous drop in interest rates over the past years, the international macroeconomic and financial environment changed in 2017. The economy gained momentum and global economic output increased notably. Besides the improved growth prospects, how-

ever, it was primarily market participants' expectations regarding monetary policy which influenced the international financial markets, as the monetary approach of the large central banks was modified successively in view of the robust economic momentum and rising inflation.

The European Central Bank (ECB) maintained its very expansionary monetary policy in 2017, albeit at a slightly slower pace. In April, the asset purchase programme was reduced from € 80 billion to € 60 billion per month, as decided in December 2016. The first signs of a change in European monetary policy and a cautious tightening became apparent in the autumn; on 26 October 2017, the ECB decided, as had been expected, to renew the asset purchase programme but also announced a "lower for longer" strategy. More specifically, this means that the monthly asset purchases will be halved as of January 2018 (€ 30 billion instead of € 60 billion) and the purchase period will be extended at least until September 2018.

According to the ECB Council, the main reason for the reduction in the purchase volume is the growing confidence that inflation rates will gradually converge towards the inflation target in view of the increasingly robust and broad-based economic upturn. At the same time, ECB President Draghi deliberately refrained from specifying a deadline for the asset purchase programme. He highlighted the ECB's readiness to make asset purchases if and when necessary. It is generally expected, however, that asset purchases will be reduced successively starting September 2018. The interest and principal payments for the assets purchased in the context of the programme will be reinvested also after the end of the net asset purchase for an extended period and in any case for as long as necessary, which should result in an additional monthly purchase volume of roughly € 10 billion starting 2018.

While the ECB thus continued its loose monetary policy, the Federal Reserve Bank (Fed) largely acted as expected by market participants and maintained its careful tightening policy, gradually lifting interest rates in three steps by 25 basis points each to a range of 1.25% to 1.50%. In September 2017, the Fed additionally announced concrete steps for a slow and non-disruptive balance sheet reduction. Starting October,

USD 6 billion in maturing US Treasuries and USD 4 billion in bonds from government-related issuers and prematurely repaid mortgages from mortgage backed securities (MBS) per month were no longer reinvested. The Fed aims to increase these amounts on a quarterly basis up to a total monthly amount of USD 50 billion. The Fed plans to maintain this amount for as long as it sees fit.

Since the financial crisis, interest rates in many economies have remained at unusually low levels. In the eurozone, short-term interest rates are still negative. Although the yields on highly rated 10-year government bonds picked up at the end of June 2017, they are still very low (10-year Bund yield at year-end: 0.42%). In the first half of the 2000s, the yields on 10-year government bonds in the eurozone and the United States averaged at 4.5%.

However, the environment changed in 2017. Robust global economic growth in conjunction with a constantly improving economic situation in the eurozone and the expectation of a medium-term increase in consumer prices translated into a slow pick-up in interest rates (from a low level).

But according to the Bundesbank's Financial Stability Review, multiple risks have built up in the German financial system during the long phase of low interest rates. With interest rates sitting at low levels for years and the economy in such robust shape, there is a danger that risks are underestimated. Moreover, risks in the financial system may increase and the perceived resilience of the financial system may prove to be overly optimistic.

The profitability of German banks remains low, which is attributable to both structural factors and the low interest rates. The German banking sector is hit particularly hard by the effects of the low interest rates, as the business models are mostly geared to interest income. Forecasts by German banks show that this trend is set to continue. So far, however, a favourable macro-economic environment has counteracted this trend.

According to the results of the 2017 low-interest survey undertaken by the Bundesbank and the Federal Financial Supervisory Authority (BaFin), the low-interest-rate

environment continues to weigh heavily on small and medium-sized credit institutions in Germany. The banking sector as a whole expects its results to decline continuously in the coming years, with net interest income expected to drop most strongly. On balance, however, the German banking sector remains resilient in selected crisis situations. The equity capitalisation of German banks and savings banks is today much better than before the financial crisis.

## 2.2 Course of Business

2017 was a good fiscal year for NRW.BANK.

A volume of new commitments of € 11.6 billion (2016: € 11.2 billion) shows that NRW.BANK's new promotional business continued the positive trend of the previous years and even exceeded the good result of the previous year due to unexpectedly high customer demand.

At € 2.7 billion (2016: € 2.4 billion), the Bank's standardised credit programmes for economic promotion, which are extended in accordance with the house bank principle (NRW.BANK.Universalkredit, NRW.BANK.Mittelstandskredit and NRW.BANK.Gründungskredit), remained in high demand, with the volume of new commitments for the NRW.BANK.Universalkredit growing particularly strongly.

Commitments under the housing promotion programme amounted to € 907 million (2016: € 1,060 million), mainly due to the fact that far less capital was needed for refugee accommodation.

In the first year of the new NRW.BANK.Gute Schule 2020 promotion programme, funds in the amount of € 223 million were drawn down and numerous projects were implemented.

2017 also saw strong demand for the infrastructure programmes, NRW.BANK.Infrastruktur and NRW.BANK.Energieinfrastruktur, which finance wind and solar parks, among other things.

At € 2.2 billion, the promotional funds made available for "Energy Transition/Environmental Protection", which covers all promotional themes, exceeded the prior year level (2016: € 1.8 billion).

As in the previous year, the low interest rate prompted many North Rhine-Westphalian municipalities to raise longer-term loans.

As of December 31, 2017, total assets amounted to € 147.6 billion (2016: € 142.1 billion). The business volume stood at € 166.5 billion (2016: € 162.0 billion). These figures were in line with expectations.

Thanks to its good creditworthiness and active investor service NRW.BANK was able to issue its bonds at favourable conditions, thus further strengthening its long-term funding base.

At € 613.9 million (2016: € 680.4 million), operating income was lower than in the previous year, primarily

due to the lower average discount rate used for the valuation of old-age pension obligations.

NRW.BANK generated an operating result before risk provisions/valuation adjustments in the amount of € 395.4 million (2016: € 465.2 million) in the fiscal year 2017 and was able to further increase its regulatory equity capital and, consequently, its risk-bearing capacity and its future promotional capability by establishing allowance reserves.

The table below shows NRW.BANK's results of operations from January 1 to December 31, 2017 broken down by segments:

	Programme-based Promotion		Other Promotion/ Liquidity Management		Staff/Services		NRW.BANK Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Net interest income	241.0	284.7	297.0	248.9	96.8	95.2	634.8	628.8
Net commission income	17.3	16.6	72.5	95.0	-2.0	-2.4	87.8	109.2
Net result from trading portfolio	0.0	0.0	-1.2	1.5	0.0	0.0	-1.2	1.5
Other operating result	4.9	6.8	-12.8	-13.8	-99.6	-52.1	-107.5	-59.1
<b>Operating income</b>	<b>263.2</b>	<b>308.1</b>	<b>355.5</b>	<b>331.6</b>	<b>-4.8</b>	<b>40.7</b>	<b>613.9</b>	<b>680.4</b>
<b>Administrative expenses</b>	<b>-81.4</b>	<b>-83.4</b>	<b>-31.9</b>	<b>-34.0</b>	<b>-105.2</b>	<b>-97.8</b>	<b>-218.5</b>	<b>-215.2</b>
- Personnel expenses	-40.7	-41.4	-6.8	-6.8	-78.7	-77.3	-126.2	-125.5
- Operating expenditure	-40.7	-42.0	-25.1	-27.2	-26.5	-20.5	-92.3	-89.7
<b>Operating result before risk provisions/ revaluation adjustments</b>	<b>181.8</b>	<b>224.7</b>	<b>323.6</b>	<b>297.6</b>	<b>-110.0</b>	<b>-57.1</b>	<b>395.4</b>	<b>465.2</b>
Risk provisions/ revaluation adjustments	-64.9	-55.9	-39.2	-64.8	-273.3	-325.0	-377.4	-445.7
thereof: allocation to fund for general banking risks	-50.0	-50.0	0.0	0.0	0.0	0.0	-50.0	-50.0
Taxes on income and revenues	-1.6	-1.4	-1.1	0.2	-5.1	-6.3	-7.8	-7.5
<b>Net income/ loss for the year</b>	<b>115.3</b>	<b>167.4</b>	<b>283.3</b>	<b>233.0</b>	<b>-388.4</b>	<b>-388.4</b>	<b>10.2</b>	<b>12.0</b>
<b>Number of employees*</b>	<b>547</b>	<b>542</b>	<b>52</b>	<b>50</b>	<b>749</b>	<b>739</b>	<b>1,348</b>	<b>1,331</b>

\* Excl. Managing Board, trainees, apprentices, interns and employees on parental leave and similar leave.

The Programme-based Promotion segment comprises the business units Housing Promotion, Promotion Programmes, Promotion Programme Advisory Services & Customer Service as well as Corporate Finance & Infrastructure Finance, excluding the participations in the public interest.

The Other Promotion/Liquidity Management segment consists of Capital Markets including municipal direct loans.

The Staff/Services segment comprises the Service and Staff business units such as IT/Organisation/Internal Services, Risk Control and Finance as well as the participations in the public interest.

## **2.3 Net Assets, Financial Position and Results of Operations**

### **2.3.1 Results of Operations**

#### **Net Interest Income**

At € 634.8 million (2016: € 628,8 million), NRW.BANK's net interest income was on a par with the previous year, mainly due to the fact that funding conditions remained favourable.

#### **Net Commission Income**

Net commission income in the total amount of € 87.8 million (2016: € 109.2 million) mainly comprised income from surrogate loan transactions, where NRW.BANK mostly acts as hedge provider (seller).

This item for the last time includes a positive effect in the amount of € 6.3 million (2016: € 24.1 million) resulting from the changed accounting practice for structured collateralised debt obligations (CDO) introduced as of December 31, 2013. The changes had an adverse effect on the bottom line in fiscal 2013, which will be offset by positive effects from the systematic release of the deferred item on the liabilities side in the following years. The underlying transactions expired in the fiscal year and the deferred item has thus been used up.

#### **Net Result from Trading Portfolio**

NRW.BANK's trading book contains short-term trading transactions with interest rate products. In the fiscal year 2017, net result from trading portfolio amounted to € -1.2 million (2016: € 1.5 million).

#### **Other Operating Result**

At € -107.5 million, the other operating result was much lower than in the previous year (2016: € -59.1 million). The reduced result is essentially attributable to the commercial law adjustment of the valuation of old age pension obligations in the previous year. The statutory extension of the period for the determination of the average discount rate from seven to ten years resulted in a higher average discount rate in 2016 and, consequently, in a positive effect from the changed interest rate. As the average discount rate is currently declining again, the changed interest rate resulted in an expense in 2017, which led to the much lower result compared to the previous year. Total interest rate effects relating to provisions for pensions, provisions for additional benefits and other personnel provisions amounted € -123.7 million (2016: € -69.9 million).

Pursuant to the notification received from the Financial Market Stabilisation Authority (FMSA) dated April 21, 2017, NRW.BANK's annual contribution to the Restructuring Fund was set at € 16.0 million (2016: € 16.7 million), of which € 2.4 million (2016: € 2.5 million) was paid in the form of a fully secured payment obligation. An amount of € -13.6 million (2016: € -14.2 million) was consequently recognised in profit/loss. The corresponding cash security is recognised under the balance sheet item "Other assets".

#### **Administrative Expenses**

At € -218.5 million (2016: € -215.2 million), NRW.BANK's administrative expenses were slightly higher than in the previous year as had been expected.

At € -126.2 million (2016: € -125.5 million) personnel expenses were on a par with the previous year. NRW.BANK changed variable remuneration components to a fixed annual bonus in the fiscal year 2017. The resulting savings partly offset the increases caused by the slightly higher headcount, the collective pay rise of October 2016 and the allocations to old age pension provisions.

Operating expenses increased by a moderate € 2.6 million to € -92.3 million (2016: € -89.7 million), as project-related IT expenses, especially in conjunction with new statutory and regulatory requirements, as well as operating expenses for IT accounting were higher than in the previous years.

### Risk Provisions/Revaluation Adjustments

Risk provisions/revaluation adjustments amounted to € –377.4 million in the fiscal year 2017 (2016: € –445.7 million).

In the lending and equity investment business, a positive result of € 16.8 million (2016: € 21.3 million) was recorded again primarily because of the net release of individual allowances in the Housing Promotion business unit and income from exposures that had been written off.

A net income of € 7.0 million (2016: € –10.1 million) related to the results of sales and revaluations in the securities and derivatives business.

NRW.BANK used its good operating result to allocate an amount of € 401,2 million (2016: € 456,9 million) to allowance reserves. As in the previous year, this included € 50.0 million for the fund for general banking risks.

### Net Income

NRW.BANK posted net income of € 10.2 million (2016: € 12.0 million) in the fiscal year 2017. As in the previous years, net income is exactly identical with the federal interest expenses pursuant to Section 14 of the Act on NRW.BANK (NRW.BANK G).

### Segment Results

Net interest income in the Programme-based Promotion segment comprises the results of the promotional business units and declined to € 241.0 million (2016: € 284.7 million).

As in the previous year, the Housing Promotion business unit again accounted for the biggest portion of net interest income, at € 215.5 million (2016: € 235.2 million). In view of the long phase of low interest rates, many borrowers took advantage of their contractual right to repay their loans in full or in part at any time without having to pay a prepayment penalty. These unscheduled repayments led to reduced receivables and, consequently, to reduced interest income.

Net interest income in the promotional programmes business declined in line with expectations, as a higher “Förderleistung” was made available in the form of

reduced interest rates for the new “NRW.BANK.Gute Schule 2020” programme. No promotional loans with negative interest rates were granted.

By contrast, the Corporate Finance & Infrastructure Finance business unit improved its net interest income, primarily due to higher payments from fund investments managed by third parties.

Net commission income rose moderately to € 17.3 million (2016: € 16.6 million), mainly as a result of higher commission income from syndicate and infrastructure financing.

The segment’s risk provisions/revaluation adjustments amounted to € –64.9 million (2016: € –55.9 million). At € 14.2 million the lending and equity investment business again posted positive net income (2016: € 22.3 million). Individual allowances were no longer required, especially in the Housing Promotion business unit, and were therefore released.

In 2016 NRW.BANK allocated a total amount of € –80,0 million (2016: € –78.2 million) to allowance reserves for the promotional business units.

Net interest income in the Other Promotion/Liquidity Management segment climbed to € 297.0 million (2016: € 248.9 million) due to the continued favourable funding conditions and higher margins.

Net commission income declined by € 22.5 million to € 72.5 million (2016: € 95.0 million) due to lower income from surrogate loan transactions. For the last time, this figure includes an income contribution in the amount of € 6.3 million (2016: € 24.1 million), which is attributable to the changed accounting practice introduced in 2013 for the portfolio of collateralised debt obligations maturing in 2017 and the resulting release of a deferred item on the liabilities side.

The other operating result of € –12.8 million (2016: € –13.8 million) essentially comprises the bank levy for the year 2017 in the amount of € –13.6 million (2016: € –14.2 million).

Risk provisions/revaluation adjustments in this segment amounted to € –39.2 million (2016: € –64.8 million).

The withdrawal and the termination of own issues resulted in net losses of € –169.2 million (2016: € –177.6 million). The voluntary repurchases of own issues is exclusively made at the request of the investor. Reasons for investors to return the securities include, for instance, the desire to change their maturity profiles and nominal interest rates as well as to optimise existing lines. In the long term, this will improve the Bank’s funding base and strengthen its profitability, as the Bank may make new issues at current conditions.

By contrast, the management of the overall portfolio resulted in net gains of € 175.4 million (2016: € 167.6 million) from securities and derivatives (hedges). This includes a net gain of € 67.6 million from the full sale of the bonds of “Kärntner Ausgleichszahlungs-Fonds”, which NRW.BANK had received in exchange for the Heta bonds including the related hedging derivatives. The loss realised from the bonds originally guaranteed by the state of Carinthia thus amounts to roughly 10% of the nominal value over the full holding period of the investment.

In 2017, NRW.BANK established allowance reserves as defined in Section 340f HGB in the amount of € –45.4 million (2016: € –54.8 million) for credit risks in the Other Promotion/Liquidity Management segment based on statistical assumptions. The reduced allocation resulted from an improvement in credit quality, which, in turn, was due to maturities of poorly rated investments as well as to rating changes.

#### List of current ratings

	Fitch Ratings	Moody’s	Standard & Poor’s	Dagong
Long-term rating	AAA	Aa1	AA–	AA+
Short-term rating	F1+	P–1	A–1+	A–1
Outlook	stable	stable	stable	stable

The Other Promotion/Liquidity Management segment is responsible for the funding of NRW.BANK. The Bank continued to experience strong demand for its debt in the fiscal year. NRW.BANK catered to investors’ need for state-guaranteed, liquid bonds and again consolidated its market presence with further benchmark

At € 96.8 million, net interest income in the Staff/Services segment was on a par with the previous year (2016: € 95.2 million) and essentially comprises profit contributions from participations in the public interest and income from the investment of pension provisions.

The lower other operating result in the amount of € –99.6 million (2016: € –52.1 million) is primarily attributable to higher interest expenses resulting from the lower discount rate for the valuation of old age pension obligations

Risk provisions/revaluation adjustments in the Staff/Services segment in the amount of € 273.3 million (2016: € –325.0 million) almost exclusively related to allocations to the allowance reserves for general banking risks.

#### 2.3.2 Financial Position

Being the state’s promotional bank and benefiting from institutional liability, guarantor liability and an explicit funding guarantee from its guarantor, NRW.BANK shares the same excellent rating with the State of North Rhine-Westphalia.

As every year, rating agencies Fitch Ratings, Moody’s, Standard & Poor’s as well as Dagong reviewed NRW.BANK’s creditworthiness and confirmed its good ratings with a stable outlook.

issues. In 2017, the Bank issued a € 1.0 billion euro benchmark bond, a USD benchmark bond in the amount of \$ 1.0 billion and a GBP bond in the amount of GBP 0.4 billion. Overall demand from investors for the foreign currency bonds was very high. NRW.BANK also issued another Green Bond in 2017. The € 500 million

10-year bond met with high demand. The net funding volume totalled € 13.8 billion (2016: € 10.3 billion), with the euro (69%) and the US dollar (29%) being the most important currencies.

The funding transactions with domestic investors are dominated by bearer bonds, promissory loans and registered bonds. Due to the regulatory requirements, there is a trend towards syndicated and liquid transactions.

NRW.BANK also used its international funding programmes for its funding operations. These programmes essentially include the Debt Issuance Programme and the Australian and New Zealand Medium Term Note Programme (Kangaroo/Kauri Programme) for medium-term to long-term maturities as well as the Global Commercial Paper (GCP) Programme for maturities of up to twelve months. As in the previous years, the GCP Programme was a particularly favourable and very stable source of funding for NRW.BANK throughout the fiscal year.

The non-programme-related funds for the promotional business raised from other promotional banks such as KfW Bankengruppe or Council of Europe Development Bank (CEB) amounted to € 1.1 billion in 2017.

As of December 31, 2017, the liquidity ratio as defined in the German Liquidity Regulation was 4.8 (2016: 2.8) and thus well above the regulatory required minimum of 1.0, which was met at all times throughout the year. As of December 31, 2017, the Liquidity Coverage Ratio to be determined in accordance with the Europe-wide applicable Capital Requirements Regulation (CRR) stood at 467% and thus far above the minimum of 80% required as of January 1, 2017.

### 2.3.3 Net Assets

As of December 31, 2017, NRW.BANK's total assets amounted to € 147.6 billion (2016: € 142.1 billion).

The two tables below show the condensed balance sheet.

## Assets

	Dec. 31, 2017	Dec. 31, 2016
	€ billions	€ billions
Receivables from banks	41.4	35.8
Receivables from customers	58.2	59.7
Bonds and other interest-bearing securities	38.8	38.6
Investments in non-affiliated and affiliated companies	2.5	2.5
Other assets	6.7	5.5
<b>Total assets</b>	<b>147.6</b>	<b>142.1</b>

Receivables from banks increased by € 5.6 billion to € 41.4 billion (2016: € 35.8 billion). The portfolio of promotional loans extended according to the house bank principle rose to € 31.5 billion (2016: € 29.6 billion) and reflects the high demand for the Bank's standardised credit programmes such as the flexible NRW.BANK.Universalkredit, in particular. Under the house bank pro-

cedure, customers file an application for promotional funds with the house bank, which passes it on to NRW.BANK. NRW.BANK then makes the funds available to the customer through their house bank.

The portfolio of registered instruments and note loans amounted to € 4.5 billion (2016: € 4.4 billion).

Totalling € 58.2 billion, receivables from customers were slightly lower than in the previous year (2016: € 59.7 billion). At € 16.9 billion, social housing promotional loans were down by € 1.0 billion on the previous year (2016: € 17.9 billion), primarily due to unscheduled repayments. In the securities business, the portfolio of registered instruments declined to € 7.7 billion (2016: € 8.3 billion). The portfolio of note loans increased to € 11.2 billion (2016: € 10.4 billion).

At € 38.8 billion, bonds and other interest-bearing securities were on a par with the previous year (2016: € 38.6 billion). At € 2.5 billion, the book values of equity investments in non-affiliated and affiliated companies also remained at the previous year's level (2016: € 2.5 billion).

## Liabilities

	Dec. 31, 2017	Dec. 31, 2016
	€ billions	€ billions
Liabilities to banks	41.0	39.1
Liabilities to customers	15.6	16.4
Certificated liabilities	64.0	60.5
Provisions	2.4	2.3
Subordinated liabilities	1.8	1.9
Fund for general banking risks	0.9	0.8
Equity capital	18.0	18.0
Other liabilities	3.9	3.1
<b>Total liabilities</b>	<b>147.6</b>	<b>142.1</b>
Contingent liabilities	14.2	15.5
Other commitments	4.7	4.4
<b>Business volume</b>	<b>166.5</b>	<b>162.0</b>

Liabilities to banks increased by a total of € 1.9 billion to € 41.0 billion (2016: € 39.1 billion). As in the previous year, € 21.9 billion of this amount related to promotional loans, most of which are funded through KfW Bankengruppe, which are paid out on the assets side primarily according to the house bank principle. The largely programme-driven lending business is also funded to a lesser degree through Landwirtschaftliche Rentenbank, the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB).

Liabilities to customers decreased by 0.8 billion to € 15.6 billion (2016: € 16.4 billion). This item primarily comprises registered instruments and note loans. At € 13.6 billion, the portfolio of registered instruments was down by € 1.3 billion on the previous year (2016: € 14.9 billion).

Certificated liabilities increased to € 64.0 billion (2016: € 60.5 billion).

Equity capital as defined in the German Commercial Code (HGB) remained unchanged at € 18.0 billion.

The table below shows the risk positions and capital ratios under the CRR as of December 31, 2017:

### Risk exposure amounts and capital ratios

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Risk weighted exposure amounts (standardised approach)	42,467.9	41,795.2
Risk exposure amount for position and foreign exchange risks	27.9	6.4
Operational risk (basic indicator approach)	1,192.8	1,091.6
Risk exposure amount for credit valuation adjustment	878.3	1,151.0
<b>Total risk weighted assets</b>	<b>44,566.9</b>	<b>44,044.2</b>
Common Equity Tier 1 capital	18,424.2	18,393.9
CET1 capital ratio	41.34%	41.76%
Own funds	20,015.8	20,023.9
Total capital ratio	44.91%	45.46%

The regulatory capital requirements were complied with at all times in the fiscal year 2017. The CET1 capital ratio reflects the Bank's high capitalisation, which mainly serves to fund the promotional loans and is therefore indispensable for the promotional business.

In the context of the "Supervisory Review and Evaluation Process" (SREP), the ECB stipulates minimum capital ratios for the banks it supervises. As a result of the SREP conducted in 2017, the ECB has stipulated a minimum CET-1 ratio of 8.46% for NRW.BANK as of January 1, 2018. This minimum ratio is composed of 4.50% minimum core tier one ratio pursuant to Art. 92 CRR, 1.75% SREP equity requirement (Pillar 2 Requirement – P2R) as well as 2.21% capital buffer requirement pursuant to sections 10c, 10d, 10g KWG. NRW.BANK's capitalisation exceeds these requirements by a wide margin.

### 3 Report on Post-Balance Sheet Date Events

No events of special importance occurred after the end of the fiscal year.

### 4 Report on Expected Developments

#### 4.1 General Information

This Report of Expected Developments contains forward-looking statements relating to the overall economic environment as well as to NRW.BANK's business, net

assets, financial position and earnings position. Such statements are based on expectations and assumptions derived from information available at the time of preparation. As such they involve risks and uncertainties beyond the control of NRW.BANK including, in particular, the development of the general economic environment and the situation in the financial markets. This means that the actual events occurring in the future may deviate from these statements, expectations and assumptions.

### 4.2 Development of the Economic Environment

#### 4.2.1 The German Economy

The German economy is currently in the phase of an increasingly mature boom, with broad-based GDP growth providing a solid basis for the economy in 2018. Against this background, NRW.BANK expects real GDP to increase by 2.5% (not adjusted for the number of working days) in 2018.

The continued positive global economic environment characterised by relatively high growth rates, especially in the eurozone, suggests that the strong export growth will persist. This assumption is supported by the extremely good level of incoming orders received by the German manufacturing industry from abroad as well as companies' very optimistic export expectations. Consequently, exports are making positive, albeit

gradually declining contributions to Germany's economic growth, even though imports are also growing dynamically.

In view of the very good prospects for the manufacturing industry, sentiment in the corporate sector is excellent. As the German economy continues to grow significantly faster than potential, many sectors are experiencing above-average capacity utilisation. This suggests that the strong cyclical upward trend in capital spending should continue in 2018. Companies' spending propensity should initially remain high and growing investments are likely to be made in capacity expansion not least because financing conditions will remain favourable overall.

Growth in the construction sector will probably remain slightly below the 2017 level due to the fact that the construction industry will increasingly test its capacity limits because of the high production volume now reached. The forward cover of the order backlog in the construction industry stands at a very high level, which also applies to equipment utilisation and business sentiment. More and more companies are having difficulties in recruiting skilled labour, and construction prices are picking up sharply. Construction capacity is likely to be expanded in the coming years, though.

The tight situation in the construction sector also affects the housing construction segment, where a more moderate increase is projected for 2018. Demand for housing in the densely populated areas will remain high, however, due to migration to and within Germany. The large number of people in employment and rising incomes also have a generally positive effect on demand. The supply bottleneck in the housing property market should nevertheless ease in the medium term. The reason is that demand is likely to decline over the long term as the expected drop in migration will reduce the need for additional housing. This applies to new buildings in particular, whose number of completions has recently gone up especially strongly. In fact, the full year 2017 saw a decline in the number of building permits, which had already dropped sharply at the beginning of the year compared to the increased level of the previous year.

With regard to total housing construction spending, the declining momentum in the construction of new

housing will be offset by the expected rise in investments in the existing housing stock, e.g. in conjunction with refurbishment and modernisation measures aimed at making buildings more energy efficient or better suited for the elderly. Consequently, housing construction spending should continue to expand, albeit at a slower pace than before.

Private consumption made an important contribution to economic growth in the past years, due, among other things, to the oil price related boost in purchasing power and the additional demand resulting from the influx of refugees. Both factors are now losing importance. Faster price growth suggests that private consumption growth will not quite reach the level of the past years. Private consumption will nevertheless remain an important pillar of economic growth as employment will continue to pick up and wages are likely to go up due to the growing shortages in the labour market.

The delayed formation of a new government means that precise statements regarding the future fiscal policy can be made only later in the year. This said, a rather expansionary policy is on the cards. The government surplus should grow further in 2018. This is due to the expected positive trend in the economy, which should support the income side. On the expense side, the strong labour market should bring financial relief. The government budget will also benefit from the continued low interest rates.

Inflation pressure in Germany should increase in the projected economic environment. Companies' price expectations are currently pointing clearly upwards. The high level of capacity utilisation should open up scope for price rises for many companies. The wage pressure resulting from the growing shortages in the labour market will successively probably also be passed on to consumers. Accelerating rents are also likely to push inflation upwards. The core rate of inflation (which does not include energy and food) is therefore likely to pick up. As there are currently no signs of notable increases in the prices of oil and food, headline inflation is unlikely to differ materially from the core rate and is expected to reach about 1.8% in 2018.

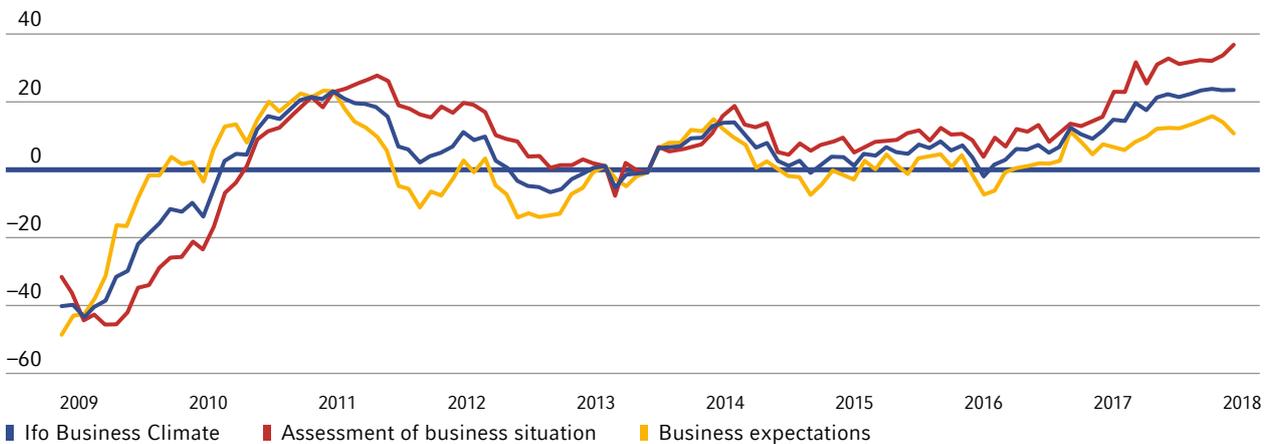
In contrast to the previous years, the forecast risks for the year 2018 are balanced. Uncertainty continues

to exist primarily in the political environment; the consequences of the Brexit vote are still unclear and US economic policy could also influence the global economic trend. The tax reform adopted at the end of 2017, for instance, provides for a massive corporate tax cut from 35% to 21%, i.e. below the 22.5% average of the industrialised countries. Going forward, this could give companies considerable incentives to relocate corporate functions and investments to the USA. Further risks could result from a heightening of the geopolitical tensions in the Near East and the development of North Korea. In the eurozone, the upcoming parliamentary elections, which are likely to make it difficult to form a government, and the unresolved independence conflict in Catalonia could result in political imponderables. The regionally and sectorally broad-based economic recovery and the many sentiment indicators at record levels mean, however, that the economic risks have declined notably.

**4.2.2 The North Rhine-Westphalian Economy**

A number of indicators suggest that the recent economic recovery in North Rhine-Westphalia is likely to continue in 2018. According to the results of the NRW.BANK.ifo Business Climate Indicator, both the situation and the business expectations of trade and commerce have improved almost continuously over the past months (see chart). In January 2018, the companies surveyed rated their business situation as favourably as never before since the start of the survey in 1991. Business expectations for the next six months are also mostly positive; survey respondents are predominantly optimistic especially in the manufacturing sector. This is largely attributable to an improved export outlook. In 2018, both the world economy and the eurozone economy are likely to grow at similar rates as in 2017. This should benefit the regional export industry, which is disproportionately dependent on the economic trend in the eurozone.

**Trade and Industry in North Rhine-Westphalia** ifo Business Survey, January 2018, Balances, seasonally adjusted



\* Manufacturing, construction, wholesaling and retailing.  
 Source: Ifo Business Survey, January 2018

Other sectors of the North Rhine-Westphalian economy continue to face structural challenges, however. The steel industry, for instance, which is of great importance for this state, is struggling with worldwide overcapacities and global price competition in spite of the

recovery in 2017. The ongoing digitalization and the need for decarbonisation in the context of the climate protection legislation entail new tasks for the sector. The conventional energy sector, too, is facing a fundamental transformation.

Regardless of the considerable structural challenges that remain, capital spending, which picked up nationwide already in 2017, should gain increasing momentum also in North Rhine-Westphalia in 2018. Capacity utilisation meanwhile stands clearly above the long-term average both in the manufacturing sector and in the construction industry. What is more, financing conditions remain favourable. Regional enterprises are therefore likely to step up their investments in plant and machinery. While construction spending will also make a contribution to growth, it will probably not be as dynamic as in 2017. On the one hand, the industry is increasingly testing its capacity limits. On the other hand, incoming orders declined slightly at a very high level in 2017.

According to forecasts by the Institute for Employment Research (IAB), employment will continue to grow due to the good economic trend, albeit not quite as strongly as the Germany-wide average. Findings of the NRW.BANK.ifo Business Climate are pointing in the same direction. At the end of 2017, industry and trade reported expansionary employment plans for the first months of the new year. Strong real wage increases are also on the cards, as NRW is facing an growing shortage of labour in spite of the high level of long-term unemployment. This is partly concealed by the official unemployment rate in North Rhine-Westphalia. The jobless rate for graduates and professionally highly-qualified people stood at only 2.7% and 4.5%, respectively, in 2016. The number of vacant positions, having once again picked up notably in the course of 2017, also suggests that demand for labour will remain high. The upcoming collective bargaining round will lead to real wage growth also in NRW. These developments support private consumption, which will remain an important pillar of economic growth.

On balance, North Rhine-Westphalia's gross domestic product is likely to grow at a similar rate as nationwide GDP.

#### **4.2.3 Financial Markets**

The financial markets continue to be dominated by monetary policy, which has pointed in different direc-

tions on both sides of the Atlantic for quite some time. This is unlikely to change much in 2018. While the ECB's decisions of October 2017 mean that the bank will continue to make additional liquidity available – albeit at reduced amounts – the US Fed raised its interest rates by as much 75 basis points in 2017. The projections by the US Open Market Committee (FOMC) for the future interest rate trend suggest that interest rates will be increased three more times by 25 basis points each by the end of 2018. The new leadership of the Fed is unlikely to change much about the current policy. The upcoming US tax cuts also raise the question whether the US Fed should not step on the monetary brake in view of the fiscal loosening.

According to the ECB's latest forecast, its medium-term HCPI inflation target of "below but close to 2%" will not be reached before 2020. Accordingly, the ECB has not set a date when its interventions will end. Since January 2018, the net asset purchases have thus been made at a reduced monthly pace of € 30 billion and are intended to run until the end of September 2018 or beyond and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

Moreover, the ECB emphasised more strongly than ever before that it will reinvest the income from interest and principal payments from maturing securities. On the one hand, the ECB formally announced for the first time that it will continue these reinvestments "for an extended period of time" after the end of the net asset purchases. On the other hand, the ECB has, since November 2017, published the maturities in the following twelve months to make the amount of the reinvestments transparent for investors.

This is why the ECB will continue its expansionary policy also in 2018. While experience shows that capital market yields cannot isolate themselves from the US trend in the long term, the ECB has announced that it would increase the volume or expand the duration of its asset purchase programme should economic risks arise. This makes the end of the asset purchases and the time of a first interest rate hike difficult to predict.

According to the ECB's statements, however, interest rates are likely to be lifted only a long time after the end of the asset purchase programme.

Interest rates in the eurozone will therefore probably stay at a low level in 2018. In the medium term, slightly higher interest rates and a somewhat steeper yield curve should ease the situation slightly. Generally speaking, however, the low interest rate environment and the higher regulatory costs should continue to have an adverse impact on the earnings position of smaller and medium-sized banks, in particular.

Technical progress and competition are subjecting the structures of the financial system to constant change, which also has implications for the perception of causes and effects within the system. Digitalization is an increasingly important driver of the structural changes. Technological financial innovations resulting from fintechs have so far played only a minor role in most market segments of the financial system. The fintech sector is growing dynamically, however, and should clearly gain importance in the coming years. Due to the early phase of innovation and the endogenous adjustments of established financial intermediaries, however, the consequences for the financial markets are difficult to assess at this stage.

Brexit is another challenge that is on the agenda. The United Kingdom will most probably leave the European Union on March 29, 2019. The resulting medium to long-term implications are difficult to predict and will primarily depend on the exit arrangements and the future legal relations between the United Kingdom and the EU. The slow progress made in the negotiations to date is already causing considerable uncertainty. According to the EU chief negotiator, Great Britain will legally no longer be part of the EU's international agreements effective March 30, 2019. Great Britain will thus no longer have access to the EU's bilateral agreements and will need to replace the latter. The new guidelines adopted by the EU Council on December 15, 2017 as the basis for the upcoming second phase of the Brexit negotiations comprise an exit agreement as well

as a transitional phase after Great Britain's exit from the EU, which the EU wants to end by the end of 2020 at the latest. With regard to the future European development, the statements by the French President recently intensified the discussion about structural changes in the EU.

#### 4.3 Development of the Bank

By developing and marketing efficient promotional products, NRW.BANK will continue to support the economic and structural development of North Rhine-Westphalia; in keeping with its mission, the Bank will, in particular, remain a strong partner to the North Rhine-Westphalian municipalities, which will continue to benefit from target-oriented financing, promotional and consulting services.

In the projected economic environment, the volume of new commitments should continue to consolidate at a high level.

Under the promotion programme "NRW.BANK.Gute Schule 2020", NRW.BANK and the State of North Rhine-Westphalia make a total amount of € 2.0 billion available to the local municipalities for refurbishment and modernisation measures in schools from 2017 to 2020. The programme also finances the digital infrastructure and equipment of the schools. The State of North Rhine-Westphalia assumes all principal payments as well as interest incurred above and beyond the "Förderleistung" contribution of the Bank. A fixed maximum amount is available to every municipality per year. The funds for 2017 can still be drawn until November 2018. NRW.BANK expects the available amounts to be called in full.

NRW.BANK expects total assets and the business volume to remain constant in line with the business trend.

Operating income is expected to decline sharply in 2018. This will probably mainly be due to the continued decline in the average discount rate for personnel provisions.

The newly launched “NRW.BANK.Gute Schule 2020” programme will be heavily subsidised in order to push down the interest costs for the municipalities, thereby weighing on the Bank’s bottom line.

Moreover, the Programme-based Promotion segment will generate lower interest income due to the continued decline in the receivables portfolio of the Housing Promotion business unit, which is attributable to high unscheduled repayments by borrowers.

The EU bank levy imposed by the Financial Market Stabilisation Authority (FMSA) for the Single Resolution Board (SRB) should have more or less the same size as in the previous year.

NRW.BANK assumes that administrative expenses will again be adversely affected by statutory and regulatory requirements and pick up moderately in 2018. This will be reflected in personnel expenses as a result of the planned headcount increase and two collective pay rises as well as in operating expenses resulting from projects, (special) charges and extraordinary measures externally induced in this context.

Planning uncertainty arises from potential further requirements in the regulatory environment. The amount of the necessary investments in information technology and personnel still cannot be exactly quantified; an additional significant burden in a million euro amount cannot be ruled out, however. Ongoing measures aimed at identifying and leveraging potential for efficiency increases will have a dampening effect on costs.

NRW.BANK therefore expects its operating income before risk provisions/revaluation adjustments in 2018 to be much lower than in the past fiscal year.

In 2018, risk provisions/revaluation adjustments should again be influenced by the allocation of general allowance reserves.

Upon request by the state government, the interest amounts to be paid by the state due to the utilisation

of loans from the federal government for the promotion of housing construction and modernisation (subsidies pursuant to Article 104a, Para. 4 of the German Constitution in the version effective until August 31, 2006) which become due in the year following the respective fiscal year must be paid directly to the federal government from the net income for the year of NRW.BANK. The potentially remaining net income for the year will be allocated to the reserves. Further profit distributions are not permitted under NRW.BANK’s Statutes.

NRW.BANK expects the Bank-wide limits for economic capital to be met also in 2018.

**5 Risk and Opportunity Report**

Due to its specialised business model as a promotional bank, NRW.BANK does not engage in all lines of banking business. The Bank takes on risks only within clearly delineated bounds. As a state promotional bank, NRW.BANK is nevertheless subject to all regulatory risk management requirements.

NRW.BANK uses a comprehensive set of risk monitoring and management tools to manage the risks to which it is exposed. The Bank has implemented a framework of guidelines, organisational structures and processes which ensure that risks are identified, measured, aggregated and managed in accordance with the Bank’s risk-bearing capacity.

**5.1 Organisation of Risk Management**

The Managing Board of NRW.BANK is responsible for the risk management system. This includes, in particular, the proper organisation of risk management,

the risk strategy, the risk-bearing capacity concept as well as risk monitoring. In the context of the general reporting process, the Managing Board is regularly informed about the Bank-wide risk situation.

The Supervisory Board monitors the Managing Board’s conduct of the Bank’s affairs. The Risk Committee, a committee of the Supervisory Board, regularly addresses the Bank’s risk situation. The committee receives reports on the risk profile for the various risk categories on a quarterly basis minimum.

The Board of Guarantors decides, among other things, on the principles of the business, promotional and risk policies and on the release of liability of the members of the Supervisory Board and the Managing Board.

The Asset Liability Committee (ALCO) is responsible for the Bank’s asset/liability management. This includes, in particular, responsibility for the Bank-wide allocation of

**Organisational Structure of Bank Steering**



financial resources to the Bank's operating units as well as Bank-wide risk management. The ALCO's tasks include market risk and liquidity risk management, Bank-wide risk management, profit management as well as balance sheet structure management.

There is one Credit Committee each for the promotional business and the capital market business. They prepare credit decisions to be made by the Managing Board and take their own credit decisions based on predefined levels of competence. In addition, they address issues of a general nature relating to credit risks as well as current macroeconomic, political and regulatory developments and their potential effects on individual exposures.

The management circle, which is composed of the Managing Board and all business unit Heads, addresses issues of strategic relevance. The main focus is on the further development of the overall Bank strategy and on assessing its consistency with the principles of the business, promotional and risk policies and the overall components of the promotional policy objectives of the federal state.

In accordance with the MaRisk requirements, risk monitoring and risk reporting are managed independently of the front-office business units. While the front-office business units are responsible for managing risks within the defined limits, Risk Control is in charge of risk monitoring, especially compliance with the limits defined by the Managing Board. Functional separation between the business units is ensured up to Board level.

The Bank has entrusted the Head of Risk Control with the risk control function as defined by the MaRisk. He participates in all important management decisions relating to the risk policy, especially through his involvement in the ALCO and other committees.

The Risk Control business unit performs all tasks of the risk control function. These primarily include the development of the risk strategy, the determination of the risk-bearing capacity (incl. Bank-wide stress tests), the monitoring of limits, risk reporting, the daily

valuation of trades, the management of the rating procedures, responsibility for compliance and money laundering prevention as well as the coordination of the processes for the launch of new products.

The Credit Management business unit is one of the back-office units and is mainly in charge of voting, loan processing and ongoing monitoring in the promotional and capital market business as well as the preparation of the watchlist (for high-risk exposures). In addition, the Credit Management business unit is responsible for coordinating the meetings of the Credit Committee.

The effectiveness and appropriateness of the risk management structures and processes are subject to regular reviews by Internal Audit, which acts as an independent body on behalf of the Managing Board.

On balance, NRW.BANK's risk management instruments and processes again proved their worth in the past fiscal year.

## 5.2 Risk Policy and Strategy

Being a promotional bank, NRW.BANK has a focused business model whose risks are strictly limited. According to its risk strategy, the promotional business takes precedence over the capital market business when it comes to the allocation of risk capital. Avoiding defaults takes precedence over profit generation in all capital market activities undertaken to support the promotional business. New business with a sub-investment grade rating is permitted only in the promotional business.

Together with the promotional and business strategy, the risk strategy is part of the overall strategy of NRW.BANK. It builds on the promotional and business strategies and aims to ensure balanced risk management within NRW.BANK. It puts the risk policy principles adopted by the Board of Guarantors into more concrete terms by way of adequate limits as part of the operational controlling process. It covers a planning period of four years.

The Managing Board of NRW.BANK defines the strategy and submits it to the responsible bodies. The Risk

Committee consults on the risk strategy, which is finally discussed at the year-end meetings of the Supervisory Board and the Board of Guarantors.

### 5.3 Risk Inventory

Effective risk management and monitoring hinge on the precise identification and assessment of risks. In the context of Group-wide risk inventory taking, NRW.BANK systematically examines whether the overall risk profile fully reflects all risks which may potentially influence the net worth, earnings or liquidity position. This is done at a Bank-wide level on an annual basis and whenever required on special occasions. On this basis, risks are classified as material or non-material, respectively.

The material risks identified are the credit and the market risk as well as the liquidity, operational and pension risk. The three latter risk types contribute less to the Bank-wide risk and therefore rank behind the credit and the market risk.

Complemental to the risk inventory, new products to be added to the product portfolio of NRW.BANK are subjected to a cross-divisional process for the introduction of new products. This ensures that the risks of new products are identified, measured and limited.

### 5.4 Risk-bearing Capacity

Economic capital is the relevant risk management parameter of NRW.BANK across all risk types and business units. It forms the basis on which risks are comprised into a Bank-wide figure using a consistent methodology.

The going concern perspective is taken for the direct management of the risk-bearing capacity. It is based on the German Commercial Code (HGB) in accordance with the Bank's accounting policy. The focus is on avoiding losses in the balance sheet in order to protect creditors and owners. Accordingly, those risks that could adversely affect a balance sheet under HGB are considered in economic capital.

Risk-bearing capacity is additionally analysed from a gone concern perspective. Against the background of the liability instruments "institutional liability", "guarantor liability" and "explicit funding guarantee" granted to NRW.BANK by the guarantor to perform its promotional tasks, this is merely a fictitious analysis, though.

Under both perspectives, the risk-mitigating effects of the above liability instruments are not taken into consideration.

The risk-bearing capacity concept has been defined in accordance with regulatory requirements (especially with the BaFin publication "Aufsichtliche Beurteilung bankinterner Risikotragfähigkeitskonzepte" [supervisory assessment of banks' internal risk-bearing capacity concepts]). It reflects the risks identified as material according to the risk inventory as well as the business and cost risk.

NRW.BANK uses a value-at-risk (VaR) concept covering a risk horizon of one year to quantify the individual risks and aggregate them into an overall ratio. The choice of the confidence level depends on the perspective taken (99% under the going concern perspective; 99.96% in the gone concern perspective).

The credit risk is a Bank-wide key risk. Differences between the going concern and the gone concern perspective primarily result from the confidence level used in the Credit VaR model.

Under the going concern perspective, the market risk is determined on the basis of a "HGB-VaR". In this context, the market risks that may have an adverse impact on the income statement prepared according to HGB are taken into account. By contrast, the gone concern perspective addresses the market risks on a mark-to-market basis.

The liquidity risk under the going concern perspective takes into account changes in NRW.BANK's funding

spread that are relevant for the HGB income statement, as an increase in funding costs leads to higher expenses. Liquidity risks are not part of the gone concern perspective but are limited by the amount of the available liquid funds (liquidity buffer).

Economic capital for the operational risk is determined based on the Basle basic indicator approach. Differences between the going concern and the gone concern perspective result exclusively from scaling to the confidence level used in the gone concern perspective.

The pension risk is determined by means of a scenario analysis, which takes into account changes in the statistical assumptions regarding invalidity and mortality which could lead to an increase in pension obligations. Differences between the going concern and the gone concern perspective result exclusively from different interest rates used to discount the cash flows. Interest rate risks relating to pension obligations are incorporated into the market risk.

For the business and cost risk, a general risk amount is determined on the basis of a simplified method. Differences between the going concern perspective and the gone concern perspective result from the scaling to the confidence level used.

More detailed information on the individual risk types and the methods used for their calculation is provided on the following pages of the risk and opportunity report.

Under the going concern perspective and the gone concern perspective, Bank-wide economic capital is determined by way of a simple addition of the economic capital of the risk types without taking diversification effects into account.

The table below shows the composition of economic capital from the going concern perspective.

#### Bank-wide economic capital under the going concern perspective

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Credit risk	819	907
Market risk	78	112
Liquidity risk	11	11
Operational risk	100	35
Pension risk	60	60
Business and cost risk	50	50
<b>Total economic capital</b>	<b>1,118</b>	<b>1,175</b>

The wind-down of risk assets with poorer risk ratings led to an overall reduction in the credit risk. The increased operational risk is exclusively the result of a methodological adjustment in the going concern perspective (immediate use of the basic indicator approach

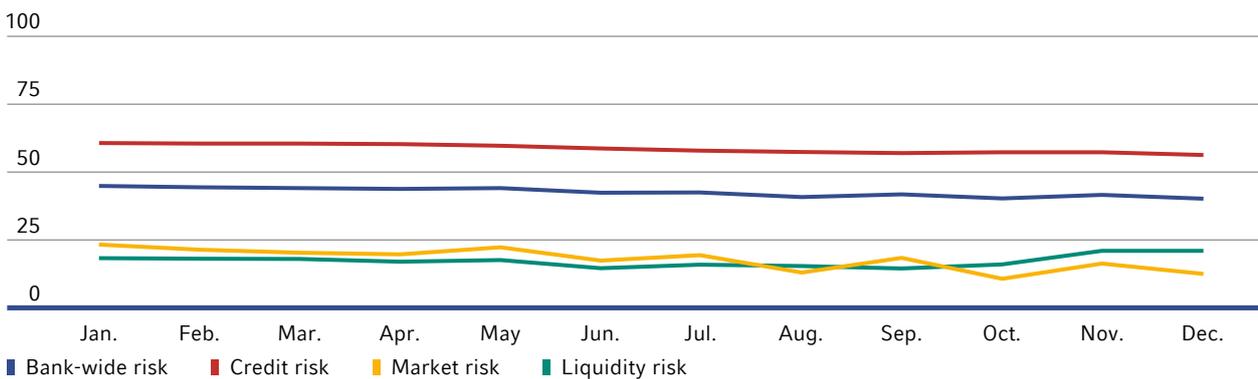
without the previous scaling to the lower confidence level of the going concern perspective). As of the reporting date, economic capital under the gone concern perspective amounted to € 10,346 million (2016: € 11,482 million).

The economic capital is compared with the maximum capital cover that is available to cover risks. Just like the economic capital, the capital cover is calculated in accordance with the respective perspective taking into account regulatory and balance sheet equity components, adjusted for specific corrections. Under the going concern perspective, for instance, the capital components tied up in accordance with the Capital Requirements Regulation (CRR) are deducted, with the minimum capital ratio defined by the ECB in the context of the Supervisory Review and Evaluation Process (SREP) also taken into consideration. Under the gone concern perspective, hidden charges and reserves, in particular from securities, are deducted if they are negative when balanced. Positive own credit risk effects are not accepted as mitigating factors on the liabilities side. As of the reporting date, the capital cover amounts to € 15.6 billion (2016: € 15.1 billion) under the going concern perspective and to € 20.8 billion (2016: € 20.2 billion) under the gone concern perspective. These amounts include the allocations to allowance reserves made in the fiscal year, which strengthen the capital cover in both perspectives. A further increase in the capital cover in the gone concern perspective results from changes in the market values.

For the direct management of risks under the going concern perspective, a Bank-wide economic capital limit is defined, which is much lower than the available capital cover. In the complementary gone concern perspective, the capital cover forms the limit for Bank-wide economic capital. Under both perspectives, the Bank-wide limit is allocated to the key business units. This ensures that sufficient risk capital is available to achieve the planned income and that the risks are limited at the same time. Utilisation of the limits is determined daily (for the individual risk types) and monthly (across all risk types) on the basis of the economic capital.

The chart below shows the limit utilisation for purposes of direct control under the going concern perspective for the credit, market and liquidity risk in the course of the year. Economic capital for the operational risk, the business and cost risk and the pension risk is determined once a year. I.e. it remains constant throughout the year and the Bank makes no distinction between limit and utilisation. Therefore, the mentioned risk types are not shown in the chart.

**Limit utilisation under the going concern perspective in the course of 2017 in %**



The risk types and the overall bank risk stayed within the limits at all times. The Bank’s risk-bearing capacity was intact at all times throughout the fiscal year.

In addition, the regulatory equity requirements under the CRR were met at all times. NRW.BANK has very comfortable capital ratios. For information on the

regulatory equity requirements, the equity capital and the capital ratios, please refer to paragraph 2.3.3 Net Assets.

In order to minimise the uncertainties resulting from the statistical processes of the value-at-risk approach, NRW.BANK takes various measures to validate the data used as well as the risk results that are determined. In addition, regular stress tests are performed.

### 5.5 Stress Tests

The risk management concept is complemented by Bank-wide stress and scenario analyses. The Bank takes an integrated approach which takes into account effects on the material risk types, the HGB income statement, the capital cover as well as the regulatory capital ratios.

The stress tests are performed at a Bank-wide level on a quarterly basis and due to single events occurring. Similar to the risk-bearing capacity concept, separate stress tests are performed under the going concern perspective and the gone concern perspective. Both historical and hypothetical scenarios are analysed.

Historical scenarios translate past crises to the current portfolio. Examples include a scenario reflecting the height of the financial crisis at the time of the Lehman bankruptcy in 2008.

Hypothetical scenarios are developed by the Bank on the basis of market analyses and expert estimates. For instance, a scenario entitled "Deterioration of the sovereign and financial institution crisis" assumes an increase in the risk factors that are relevant for the sovereign portfolio.

The stress scenarios examine the combined effects of a deterioration in exposures (increases in probabilities of default and loss given default) and of changes in market data (interest rates, credit spreads). Pension and operational risks are additionally taken into consideration.

In addition, inverse stress tests are performed on a regular basis. Inverse stress tests examine which events could potentially jeopardise the Bank's ability to survive.

Under the going concern perspective, the stress tests are dominated by changes in the field of credit risks. The assumed defaults of borrowers and rating migrations lead to a reduction in the capital cover and/or to an increase in the economic capital for credit risks.

Under the gone concern perspective, credit risks and market risks play an equally important role in the stress tests. Under this perspective, the capital cover reacts much more sensitively to changes in market data under stress.

The stress tests confirm the adequacy of the capital situation under the going concern perspective.

### 5.6 Credit Risk

#### 5.6.1 Definition

The credit risk describes the risk of a counterparty being partly or fully unable to meet their contractual obligations towards NRW.BANK. There is the risk of a loss or reduced profit resulting from the full or partial default of a counterparty. This comprises the credit risk from loans, issuers, counterparty, country risks, risks resulting from equity holdings and migration risks.

NRW.BANK defines the credit risk from loans as the risk of a contractual partner failing to meet its obligations to repay liquid funds (e.g. loans or money market transactions).

The issuer risk describes the risk of payment inability of an issuer (e.g. in the case of securities) or a reference counterparty (e.g. credit derivatives).

Counterparty risk means that the default of a contractual partner under a derivatives contract makes it impossible for the Bank to realise an unrealised gain from pending transactions (i.e. up to contractual maturity) if the market conditions have changed in the meantime or that the Bank will face increased replacement costs.

In NRW.BANK's view, a country risk exists where the Bank has an exposure to customers headquartered outside Germany. This definition covers all aspects of the country risk (creditworthiness, transfer and economic risks).

The risk from equity holdings results from the risk of incurring losses from the provision of equity capital to enterprises. NRW.BANK's equity holdings comprise investments which are primarily held on behalf of the Federal State of North Rhine-Westphalia and were transferred to the Bank upon its inception as well as investments entered into as part of the Bank's mission as a promotional bank.

The migration risk shows potential value losses resulting from a deterioration in the creditworthiness of a debtor/counterparty. The migration risk partly overlaps with the credit spread risk, which forms part of the market risk.

### 5.6.2 Methods

Factors playing a key role in the calculation of the credit risk include the amount of the exposure, the probability of default and the loss given default of each debtor. These parameters form the basis for managing the risk at the level of each individual exposure and at a Bank-wide level.

- The amount of the exposure is the sum total of all relevant amounts that are subject to a risk of default. In the case of loans, this is the remaining capital plus binding payment obligations; in the case of securities, it is the higher of the amortised cost price and the nominal value. Credit equivalents are recognised to calculate counterparty risks from derivatives, taking netting and collateral pursuant to standardised framework agreements into account. In addition, credit derivatives are recognised at their nominal value; thereby the purchase of protection reduces the exposure of the respective reference counterparty, while the sale of protection increases it. The total exposure (the credit risk-related amount of the exposure) thus differs from the business volume.
- The probability of default is derived from the debtor's internal rating. For this purpose, NRW.BANK uses differentiated risk classification methods. The portfolios of corporates, financials and real estate clients are classified using rating

procedures meeting the requirements of the internal rating based (IRB) approach of the CRR. The ratings for exposures to foreign governments are determined on the basis of external agency ratings and structured internal plausibilisation. In view of the joint liability scheme and the fiscal equalisation scheme, uniform ratings are used in particular for savings banks and domestic municipalities, respectively. Simplified internal risk classification methods are used for smaller portfolios. Depending on the type of debtor, each rating is assigned a probability of default based on a 26-step scale, so that all debtors are included as risk-relevant in the calculation of the economic capital on a staggered basis.

- The loss given default (LGD) describes the portion of the exposure which would irrecoverably be lost in the case of insolvency proceedings after realisation of potential collateral. Differentiated LGDs are assigned to the exposures depending on the type of debtor. They are determined for housing promotional exposures based on an analysis of own historical data. For other asset classes, they are primarily determined on the basis of external data sources, as there is no statistically significant number of defaults in the Bank's portfolio.

NRW.BANK determines the economic capital for the credit risk on the basis of a credit value-at-risk. The risk horizon is one year, the confidence level is 99% under the going concern perspective and 99.96% under the gone concern perspective.

The credit value-at-risk is calculated according to the formula of the IRB approach under the CRR. Initially, there is only a methodological difference made between the treatment of defaulted and non-defaulted debtors. Through an additional maturities adjustment rating migrations that may lead to additional capital requirements are then also taken into account.

As the IRB approach is based on the assumption of an indefinitely granular portfolio, an additional concentration surcharge is determined on the basis of a simula-

tion process and reflected in the economic capital. As a result, high exposures which either exist separately or are composed of different exposures within an economic grouping make a disproportionate contribution to the risk, which means that the surcharge takes concentrations into account.

In order to further limit concentrations – not only with regard to risks but also regarding income – single name concentration limits at Group level and cross-borrower concentration limits at country level are defined for the amount of the exposure.

Besides the economic capital (unexpected loss), standard risk costs (expected loss) are generally taken into account when defining the terms and conditions. This way, it is ensured that the expected losses are compensated by corresponding income.

In the context of the Bank-wide stress tests, various historical and hypothetical scenarios are analysed, which assume deteriorations in the rating quality that are differentiated by asset classes.

The above risk management methods allow NRW.BANK to appropriately monitor credit risks, to identify unbalanced portfolio developments and risk concentrations and to take any measures that may be required at an early stage.

### 5.6.3 Validation

The ratings and probabilities of default as well as the loss given defaults are validated at least once per year. For the social housing promotional portfolio, which is the biggest portfolio of NRW.BANK in terms of number of individual exposures, differentiated analyses are performed for individual segments such as investors and owner-occupiers.

In addition, the methodological assumptions that serve as the basis for the calculation of economic capital are also reviewed annually. For instance, the maturity adjustments implemented to reflect rating migrations are checked for plausibility.

The reviews serve to ensure that the risk calculation remains adequately conservative.

### 5.6.4 Risk Assessment and Limitation

NRW.BANK uses suitable limits and processes to ensure that the credit risk is limited. On the one hand, there are concentration limits which limit the exposures, especially at individual debtor level, Group level and at country level as well as sub-portfolio level. The respective limit utilisation is determined by the amount of the exposure, with new transactions being immediately counted against the limits. On the other hand, there is a Bank-wide and a business unit-specific limitation of the economic capital under the going concern perspective. The limits take into account both the Bank's risk-bearing capacity and the budgets prepared by the individual business units as part of the strategy process.

Key elements used to monitor the credit risk:

- Event-related bad news process including immediate analysis and decision on individual measures (e. g. rating review, limit adjustments)
- Daily monitoring of single name, group, country and economic capital limits
- Daily monitoring of capital market investments in the context of an early warning system (e. g. changes in credit spreads and ratings)
- At least annual monitoring of individual credit exposures
- Ongoing monitoring of the exposures on the watchlist, which contains intensive care and problem exposures

Suitable escalation processes have been defined for cases where limits are exceeded.

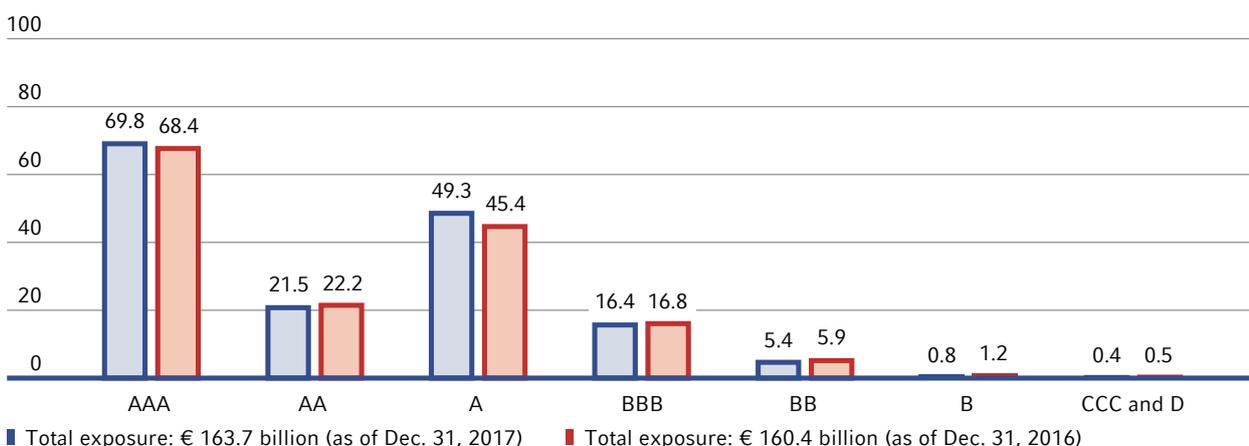
The promotional funds extended by NRW.BANK are either secured or granted according to the house bank principle, which means that the respective portfolio is a low-risk portfolio. Sub-investment-grade exposures may be entered into only if this is required by the public

promotional mission, e. g. in the promotion of small and medium enterprises and social housing promotion.

In addition, the Bank holds a portfolio of securities/receivables and loans and engages in money market

transactions. Derivative contracts are concluded with counterparties with good credit ratings on the basis of standard contracts. New business in this portfolio must always be of investment-grade quality (this corresponds to internal rating AAA to BBB).

**Total exposure by internal rating classes incl. derivatives, in € billions**



NRW.BANK's total exposure amounts to € 163.7 billion, which represents an increase by € 3.3 billion from the previous year's € 160.4 billion).

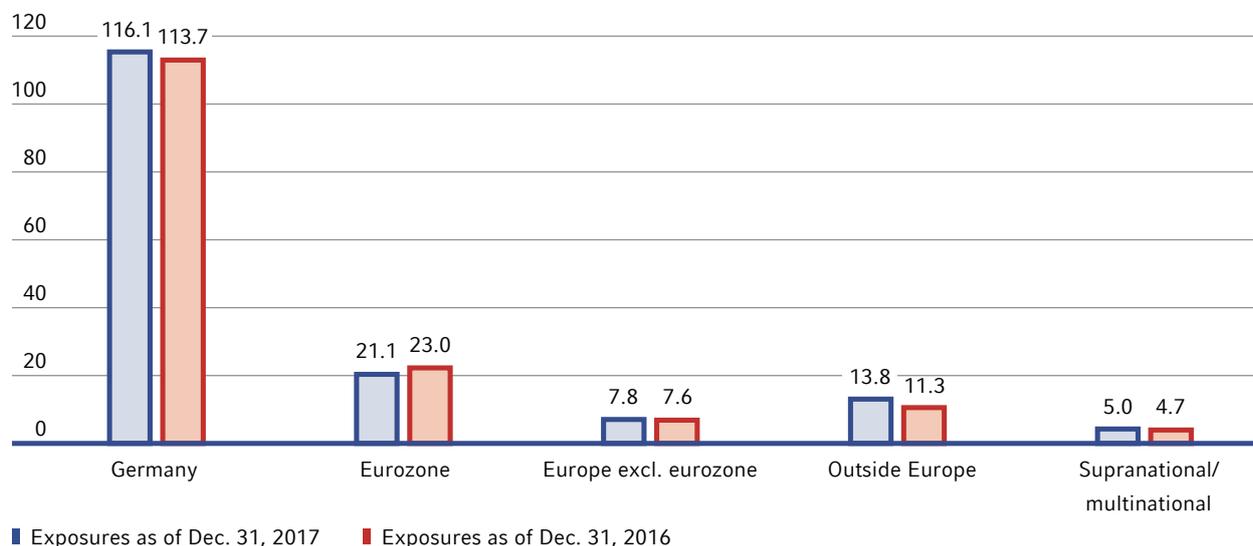
Due to the high proportion of government and domestic municipal loans, most of the ratings remain within the internal rating class AAA. 95.9% of the portfolio (2016: 95.3%) are investment grade exposures.

At € 116.1 billion (2016: € 113.7 billion) exposures in Germany account for the biggest portion of the portfolio (70.9% of the total exposure; 2015: 70.9%). Of this amount, € 76.2 billion (2016: € 77.3 billion) relates to North Rhine-Westphalia; this amount includes direct exposures to municipalities of € 16.4 billion (2016: € 16.9 billion). This concentration is the result of the public promotional mission, because of which the Bank has a special responsibility towards the municipalities and provides them with reliable funding.

As a largely independent promotional bank, NRW.BANK uses the income from its international exposures to fulfil its promotional mission. The international exposure totals € 47.7 billion (29.1% of the total exposure; 2016: € 46.7 billion) and is composed of exposures to European countries in the amount of € 28.9 billion (2016: € 30.7 billion) and of exposures to non-European countries as well as supranational and multinational organisations in the amount of € 18.8 billion (2016: € 16.0 billion). The international exposure is focused almost exclusively (99.9%, 2016: 98.8%) on investment-grade countries.

The European exposure comprises investments in the eurozone in the amount of € 21.1 billion (2016: € 23.0 billion) and investments outside the eurozone of € 7.8 billion (2016: € 7.6 billion). The non-European exposures focus on North America with € 7.9 billion (2016: € 7.2 billion), Asia with € 2.9 billion (2016: € 1.5 billion) and Australia/New Zealand with € 2.7 billion (2016: 2.4 billion). Supranational organisations and multinational exposures account for a total of € 5.0 billion (2016: € 4.7 billion).

## Geographic breakdown of exposures incl. derivatives, in € billions



The sub-investment-grade country exposure is exclusively rated in the BB range and totals € 0.05 billion (2016: € 0.6 billion). It exclusively results from rating downgrades of investments already held in the portfolio. As a general rule, no new capital investments are made in these rating classes. In countries with poorer investment grade ratings (BBB), material exposures exist primarily in Italy (€ 3.0 billion, 2016: € 3.1 billion) and Spain (€ 2.7 billion, 2016: € 3.0 billion). The exposures to these countries were further reduced in the course of the fiscal year. New burdens faced by the governments or a more pronounced economic slowdown could put the ratings under renewed pressure.

As a result of repayments, securitisation exposures decreased by € 1.7 billion in the fiscal year. As of the balance sheet date, the securitisation exposures – mostly of investment-grade quality – amounted to € 4.2 billion (2016: € 5.9 billion). A major portion of the portfolio (69.5%) additionally benefits from a comprehensive state guarantee (e. g. from the US Department of Education). NRW.BANK constantly monitors the credit risk associated with the underlying reference pools of securitisation exposures.

The equity investment business comprises participations in the public interest which are primarily held on behalf of the Federal State of North Rhine-Westphalia and were transferred to the Bank upon its inception as well as investments entered into as part of the Bank's promotional mission. The credit risks arising from the investments are largely based on strategic and operational risks, which are primarily analysed using the corporate data made available for investment controlling purposes. Controlling for these companies includes continuous monitoring of profits and losses and of conformity to projections. In the case of major equity holdings, the quarterly report also includes a review of risk-relevant developments. As such, risk management is a systematic and continuous process that enables rapid adaptation to changing conditions. At some of these investments, the Bank is represented through mandates on bodies such as advisory councils, supervisory boards or investment committees. Moreover, the investment contracts usually contain regulations which reserve a veto/approval right for NRW.BANK in specific cases.

For some equity investments, the credit risk is reduced due to a strong involvement of the public sector. In the

case of eight participation funds in the promotional business with a total exposure of € 176.8 million (2016: € 157.2 million) the credit risk is reduced by a guarantee from the Federal State of North Rhine-Westphalia which covers 49% of the respective fund's total investment.

The € 2.2 billion book value of the investment in Portigon AG, which is held on behalf of the Federal State of North Rhine-Westphalia, is secured by a guarantee from the federal state.

Equity investment exposures are included in economic capital management and reflected in the credit risk.

#### 5.6.5 Economic Capital

As of the reporting date, the economic capital set aside for credit risks amounts to € 0.8 billion (2016: € 0.9 billion) under the going concern perspective and to € 3.7 billion (2016: € 4.1 billion) under the gone concern perspective. Differences between the two perspectives are primarily attributable to the confidence level used. Under both perspectives, the reduction in risk assets with poorer ratings helped to reduce the risk.

#### 5.6.6 Risk Provisions

Defined criteria are used to determine whether risk provisions need to be established for credit claims. Where they are needed, the amount of the required individual allowances is determined in a timely manner in the course of the year. Thereby, existing collateral is taken into account. In evaluating collateral, the usual methods applied for the valuation of real estate are used for social housing promotional loans. The result is reduced by a discount calculated on the basis of historical data. By contrast, generalised individual allowances are established in social housing promotion as part of managing the Bank's exposure to non-performing loans in the owner-occupier segment (remaining capital of less than € 750 thousand). A general allowance is formed for latent credit risks. The amount

of this allowance is based on historical averages for default rates and loss given defaults.

In the securities business, the risk provision is calculated on the basis of market information, mathematical models and individual creditworthiness estimates.

Equity investments of NRW.BANK are also regularly checked for the need to establish risk provisions. Where these are required, the book value is written down.

#### 5.6.7 Opportunities

In accordance with its business model and the risk strategy principles, NRW.BANK takes risks only within clearly defined limits. This means that unexpected opportunities arising from potential future developments or events which may lead to a positive deviation from forecasts or targets exist only to a very limited extent. The positive business trend anticipated in the context of the business model is incorporated into the annual strategic planning process.

Opportunities arise, for instance, from rating upgrades of the exposures, which means that less rating-related economic capital needs to be set aside for credit risks. This opens up further investment opportunities with additional income potential.

NRW.BANK determines anticipated losses on the basis of probabilities of default and loss given default and incorporates them in the planning and extrapolation for its result under HGB. There is a possibility that the actual defaults are lower than the anticipated losses. In these cases higher allocations to reserves may be made – as in the previous years – which helps to strengthen the capital cover and the risk-bearing capacity.

### 5.7 Market Risk

#### 5.7.1 Definition

The market risk refers to a potential loss resulting from unfavourable changes in market prices or price-

influencing parameters. This definition covers interest rate, foreign exchange rate and option risks. The Bank does not take equity and commodity risks. As far as the interest rate risk is concerned, a distinction is made between the general and the specific interest rate risk. It comprises both changes in general interest rates and changes in the credit spread of issuer classes and changes in the credit spread of individual issuers (residual risk).

### 5.7.2 Methods

The Bank controls and monitors its market risk using a value-at-risk (VaR) methodology. VaR is calculated for daily management at a 95% confidence level for a one-day holding period and takes into account all risk factors relevant for the portfolio, such as interest rates, foreign exchange rates, implicit volatilities and credit spreads.

Under the going concern perspective, market risks are primarily measured on the basis of a VaR concept (net-interest-income approach, respectively). Under this approach, all market risks which may influence the HGB income statement are taken into account. In the investment portfolio, this may include interest or foreign exchange rate risks resulting from assets and liabilities with different fixed interest periods or currencies which still have to be hedged on a nominal value basis in the context of asset/liability management. For the trading portfolio and the liquidity reserve, all relevant risks types are additionally measured on a mark-to-market basis. Accordingly, temporary market value changes, e. g. from specific interest rate risks (credit spreads), are counted under the HGB perspective for the trading portfolio and the liquidity reserve. Due to the strategic objective of hedging most of the interest and rate and currency risks, the correspondingly conservative limitation as well as active management, only low market risks exist in the investment and trading portfolios under the going concern perspective. The HGB-VaR calculation is based on the sensitivity of the HGB income statement towards changes in market

prices ("HGB sensitivities"). In contrast to a mark-to-market VaR concept, the focus is not on the mark-to-market sensitivities but on the sensitivity of the HGB result. The HGB-VaR is calculated for the current and for the next two fiscal years as well as generally for all future periods.

Under the gone concern perspective, the VaR is additionally examined on a mark-to-market VaR basis (economic value of equity). The (mark-to-market) sensitivities used to calculate the VaR take into account general and specific interest rate risks, exchange rate risks and volatility risks. Under this approach, the general interest rate risks from the largely equity-funded social housing promotional business as well as the specific interest rate risks (credit spreads) are considered in the investment portfolio.

The volatilities and correlations needed to determine the VaR figures are identical for both perspectives. The historical observation period is 250 days, with a greater weight placed on incidents in the more recent past.

The daily management is based on a VaR with stressed correlations and volatilities (variance-covariance approach). In particular, the Lehman crisis of 2008 and the EU government finance crisis of 2011 are used as stress histories. This way, the Bank ensures that unfavourable market phases are also taken into consideration. In the investment book, the stressed VaR is monitored across all levels from the Bank as a whole down to individual sub-portfolios. In the trading book, the unstressed VaR is limited, as the consideration of current market data makes sense against the background of short-term management. The VaR for the trading book is calculated on the basis of a Monte Carlo simulation. Non-linear products are taken into account via new valuation.

Above and beyond this day-to-day management of the interest-bearing business, strategic interest rate risks from pension obligations (incl. benefit obligations),

business policy decisions in the promotional programmes business and participations in the public interest are also considered. Strategic interest rate risks from pension obligations result from the Bank's strategic decisions regarding the capital investment of pension provisions in cases where the maturity of the investment does not exactly match the payment profile. There is a risk that the provisions and the interest income generated from the investment need to be complemented by other operating income to meet all pension obligations. In addition, strategic interest rate risks include business policy-driven interest rate commitments in the promotional programme business as well as – on a small scale – from participations in the public interest if the term of the refinancing differs from the assumed term of the investment.

The calculation of the VaR is supplemented with daily stress scenario computations. In this context, hypothetical scenarios are considered for interest rates, foreign exchange rates, implicit volatilities and credit spreads. In addition, the effects of changes in interest rates and credit spreads are examined for the identified historical scenarios. The standardised stress scenarios are supplemented if needed with individual, situational considerations tailored to the risk structure of the Bank's portfolio. Moreover, the analysis of the sensitivities and risk concentrations from the above risk factors is an integral element of daily market risk measurement.

### 5.7.3 Validation

Daily backtesting is used to check the quality of the VaR projection. In this context, the losses projected by the VaR model are compared with the changes in the result. The Bank performs clean backtesting without ageing, which means that only changes resulting from changes in the market data are taken into account. In accordance with the two perspectives, backtesting is performed for both HGB losses and mark-to-market losses.

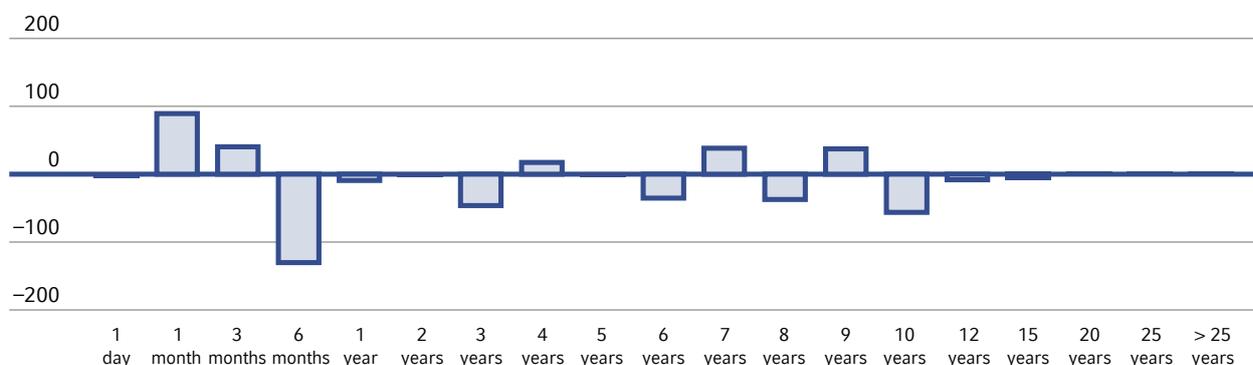
When the backtesting approach for internal market price risk models accepted by the regulatory authorities pursuant to the CRR is applied to NRW.BANK's backtesting, the model for both perspectives (going concern and gone concern) is generally within the statistically expected range. In one exceptional case, an increased number of statistical backtesting outliers was observed for a short period of time in 2017 in the going concern perspective. A more detailed analysis was therefore carried out. This analysis and the regular daily, monthly and annual processes conducted to review the parameters and assumptions confirmed the validity of the model.

### 5.7.4 Risk Assessment and Limitation

The focus of the market risk under the gone concern perspective is on general and specific interest rate risks in the investment portfolio. The resulting market value fluctuations are not reflected in profit/loss under the HGB-oriented going concern perspective, provided there is no permanent impairment. As investments in the investment portfolio are made with the intention of being held to maturity permanently, the hedges used by the Bank relate to the nominal value at maturity. Accordingly, there are only minor fixed-interest-period and currency mismatches under the HGB-oriented going concern perspective, which are limited by the HGB-VaR for the risks of all future fiscal years as well as for the current and the next two fiscal years. This is complemented by mark-to-market VaR limitation under the gone concern perspective. The Bank also has minor active positions in the trading portfolio. These are limited by a separate limit for the trading portfolio. Compliance with the limits is monitored on a daily basis; all limits were met at all times in the fiscal year.

Due to the hedges in place, there are no material fixed-interest-period mismatches at Bank-wide level under the HGB-oriented going concern perspective (the following graph shows sensitivities of max. € 93 thousand and min. € -134 thousand).

**HGB interest rate sensitivities (excl. strategic interest rate risks) under the going concern perspective (all periods) to a 1 bp interest rate hike in € thousands as of Dec. 31, 2017**



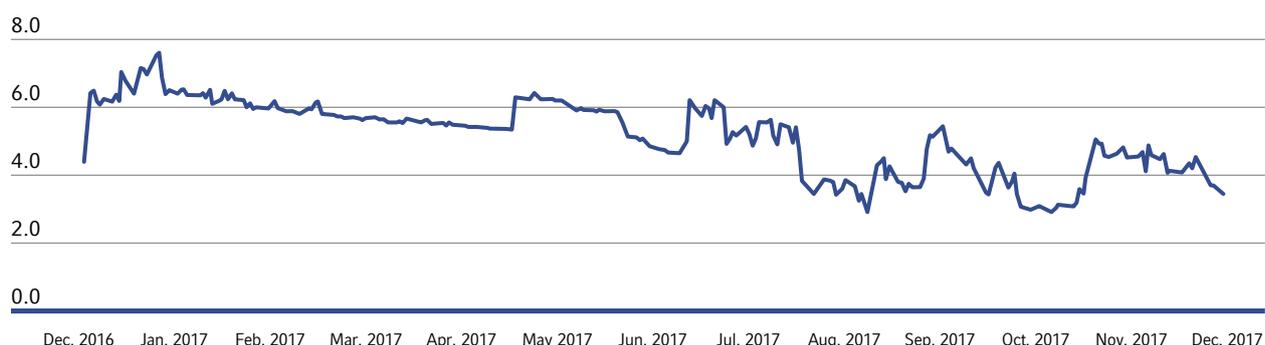
In addition, HGB interest rate sensitivities from strategic interest rate risks for pension obligations and participations in the public interest for the current and the next fiscal year as well as business policy-driven interest rate commitments in the promotional programme business in the amount of € 26 thousand were considered in the risk measurement as of December 31, 2017.

Currency risks also play only a minor role under the HGB-oriented going concern perspective. They are

extensively hedged using derivatives, which means the HGB result is essentially exposed only to the currency risk on the interest margin generated.

Reflecting the low interest rate and exchange rate risks, the HGB-VaR for market risks for all future fiscal years amounted to € 3.5 million as of December 31, 2017 (2016: € 4.5 million). The daily management is based on a VaR with stressed correlations and volatilities (variance-covariance approach).

**HGB-VaR under the going concern perspective (all periods) in € millions**



The average (all periods) HGB-VaR for market risks in the fiscal year was € 5.2 million (2016 excl. strategic interest rate risks: € 2.4 million). The minimum was € 2.9 million on November 6, 2017 and the maximum was € 7.6 million on January 24, 2017.

The allocation of the HGB-VaR to the risk types confirms the relatively low overall market risks taken, which, as described above, are largely closed by hedges and limited additionally.

### HGB-VaR under the going concern perspective (all periods)

	Mar. 31, 2017	Jun. 30, 2017	Sep. 30, 2017	Dec. 31, 2017
	€ millions	€ millions	€ millions	€ millions
Interest rate risk	4.7	4.6	5.0	3.4
Foreign exchange rate risk	1.5	0.5	0.5	0.2
Credit spread risk	0.1	1.0	0.1	0.5
Interest rate volatility risk	0.0	0.0	0.0	0.0
Diversification	-1.4	-1.3	-0.4	-0.7
<b>Total VaR</b>	<b>4.9</b>	<b>4.9</b>	<b>5.2</b>	<b>3.5</b>

No material positions were held in the trading portfolio in the fiscal year. Accordingly, the maximum VaR in the fiscal year was € 0.3 million (2016: € 0.3 million).

#### 5.7.5 Economic Capital

For the strategic management of economic capital, the Bank uses a confidence level of 99% under the going concern perspective and of 99.96% under the gone concern perspective. A risk horizon of one year with a shorter holding period of 125 days is considered under the gone concern perspective, which results from the differentiated analysis of different holding periods per asset and liquidity class. The latter reflects the possibility to take risk management measures, e.g. by reducing risk positions in the event of an unfavourable market trend. A holding period of one year is used under the going concern perspective. The economic capital for market risks is determined from a stress VaR with stressed correlations and volatilities. This way, the Bank ensures that the calculation of economic capital also reflects unfavourable market phases. Accordingly, the economic capital remains relatively constant.

Under the going concern perspective, the economic capital for market risks including strategic interest rate risks amounted to € 77.9 million (2016: € 112.4 million). An amount of € 28.3 million (2016: € 29.5 million) related to strategic interest rate risks.

The economic capital for market risks under the gone concern perspective primarily includes general interest rate risks from the social housing promotional loans. These are primarily funded with own equity funds. To comply with MaRisk, the own equity funds used to fund housing promotional loans may not be taken into account in the risk calculation. The MaRisk thus imply that housing promotional loans are funded fully mismatched with overnight deposits. This results in a high assumption based interest position. In addition, economic capital includes all mark-to-market strategic interest rate rates and all credit spread risks of the investment portfolio, although any resulting fluctuations in the market value are usually not recognised in profit/ loss in NRW.BANK's HGB income statement. As of the reporting date, the economic capital set aside for market risk amounted to € 6.4 billion (2016: € 7.1 billion).

### 5.7.6 KWG Interest Rate Shock

The potential effect of a sudden and unexpected interest rate change in the investment book defined by BaFin circular 11/2011 – currently +/-200 basis points – is dominated by the above-mentioned assumption based interest position of the housing promotional loans. As of December 31, 2017, the negative change in the present value of the Bank's investment book resulting from an assumed +200 bp interest rate shock amounted to 17.8% of the regulatory equity capital (2016: 19.8%). The marked decline is primarily attributable to lower interest rate sensitivities of the housing promotional loans resulting from the general increase in interest rates. The interest rate sensitivity of the housing promotional loans results from the fact that they are funded with equity. When assessing the Bank's potential sensitivity to the postulated KWG interest rate shock, equity funds must be modelled as maturity mismatched refinancing funds payable on demand according to regulatory requirements.

Besides calculating the effects of the KWG interest rate shock on the present value, the Bank also calculates the effects of interest rate changes on the HGB result under the going concern perspective. In contrast to the above-described particularities of housing promotion under the mark-to-market perspective, interest rate risks under the going concern perspective are negligible. As the positions in the Bank's investment portfolio fall under the buy-and-hold strategy, this perspective is in accordance with the Bank's primary risk management approach.

### 5.7.7 Opportunities

The aim of NRW.BANK's asset/liability management is to generate a fixed interest and commission margin with regard to the HGB income statement. This entails low market risks, which limit the respective opportunities in the investment portfolio. The biggest opportunities therefore lie in the development of the rates for future new business on the asset and the liability side and not in additional gains from mismatched interest and currency positions. In the trading portfolio, further opportunities are also ruled out due to the existing

limit. This means that opportunities for generating additional HGB income from market risk positions play only a minor role. From a mark-to-market point of view, market price fluctuations lead to changes in unrealised profit and losses. In the investment portfolio, these are regarded as temporary value fluctuations – provided that they are not permanently impaired. Realised net gains in the investment portfolio exclusively result from portfolio-enhancing measures.

## 5.8 Liquidity Risk

### 5.8.1 Definition

The liquidity risk includes, in particular:

- the risk of being unable to meet payment obligations at maturity (liquidity risk in the narrower sense)
- the risk of being unable to provide sufficient liquidity at the anticipated conditions (funding risk) when needed and
- the risk of being unable to unwind or liquidate transactions or to do so only at a loss because of insufficient market depth or market disruptions (market liquidity risk)

### 5.8.2 Methods

The liquidity risk is managed centrally at NRW.BANK to ensure liquidity across the entire Bank at all times.

The risk of insolvency and the funding risk are monitored daily on the basis of a liquidity gap analysis and its limitation. The liquidity gap analysis (in EUR and foreign currency) is prepared and analysed each day independently of trading units. It reflects the contractually agreed (deterministic) inflows and outflows of cash for each day until the final cash flow occurs (incl. interest cash flow and off balance sheet transactions).

For optional (stochastic) cash flows (e. g. termination rights or early redemption), conservative assumptions are made in such a way that negative effects are assumed for NRW.BANK. Moreover, no (fictitious) new

business is reflected or modelled in the liquidity gap analysis; e.g. there is no prolongation of unsecured and secured funding.

The funding risk, as the income risk for the HGB result, is determined on the basis of the planned issuance volume of the next twelve months and the volatility of the own fund spread and limited in the context of the risk-bearing capacity in the going concern perspective. In addition, the funding base is diversified in terms of investor groups, regions and products, which helps to minimise the funding risk.

The market liquidity risk is of minor importance for NRW.BANK, as the investment portfolio only consists of positions held in accordance with the buy-and-hold strategy. Accordingly, temporary market liquidity fluctuations are not relevant for the HGB income statement, as the focus is not on short-term profit generation by way of a sale. Sales of investments held in the investment portfolio serve to optimise the portfolio in the context of portfolio management and are not directly related to the generation of liquidity.

The market liquidity risk from securities held in the liquidity reserve and the trading portfolio is not material, as the securities holdings are relatively small.

An analysis of the market liquidity risk that goes beyond the analysis of the market risk is performed in the form of a regular analysis of the short-term liquidity to be generated from the securities portfolio. In addition, it is reflected in the liquidity risk limitation in the form of haircuts on the calculated liquidity potential.

### 5.8.3 Risk Assessment and Limitation

Because of the explicit funding guarantee extended by NRW.BANK's guarantor and its correspondingly good rating, the Bank can generate the required liquidity at

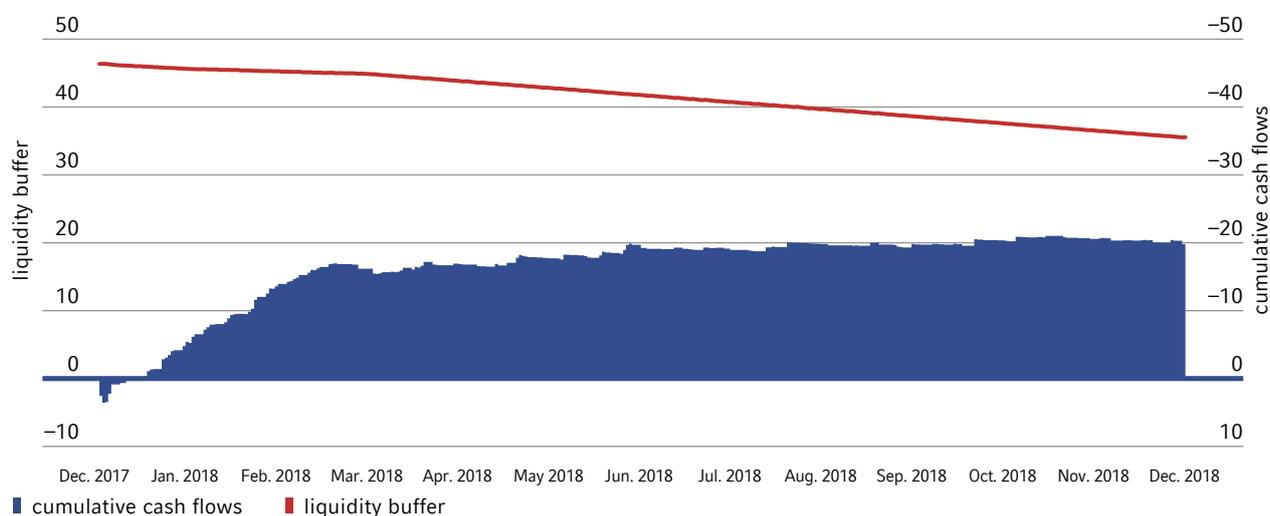
short notice at any time. The Bank usually funds itself in the money and capital markets. NRW.BANK continues to benefit from a very favourable funding environment.

To ensure it is able to meet its payment obligations at all times, the Bank additionally holds a substantial portfolio of liquid ECB/repo-eligible securities as well as ECB-eligible credit receivables. Regardless of the buy-and-hold strategy, the securities may be used in the repo market or for ECB open-market transactions with a view to generating liquidity. Sales of securities in the investment portfolio are therefore not required for this purpose.

To limit liquidity gaps, a limit system graded according to maturities is in place, which is based on the MaRisk requirements for assets to be held as liquidity buffer even in a stress scenario (up to one week: highly liquid securities that can be liquidated in private markets without significant losses at any time and that are ECB-eligible; up to one month: unencumbered ECB-eligible securities and unencumbered securities deposited with the Bundesbank). The limit system also requires liquid securities for observation periods of more than one month. The liquidity buffer is thus an important element of the system for liquidity gap limitation. In addition, there are further funding possibilities of the money and capital markets, which are reflected in the limit system in a second step, with haircuts being applied.

Due to the above-mentioned limit system, NRW.BANK's ability to meet its payment obligations is secured by the freely available portfolio of ECB-eligible receivables and the unused ECB line even without external capital market funding. Netted with cash inflows and outflows, there is a significant liquidity surplus for the 1-year period that is most relevant for risk management.

## Liquidity gap analysis of NRW.BANK in € billions



The limit system ensures that liquidity gaps are at all times covered by the liquidity buffer, especially in the short-term segment.

Idiosyncratic, market-wide and combined stress tests are also performed in the context of liquidity management. These stress tests take into account crisis-specific effects on payments, the liquidity buffer maintained by the Bank as well as the limit utilisation. The following is simulated in the context of the stress tests:

- defaults of material borrowers,
- outflows under collateralisation agreements,
- reduced liquidity potential from ECB-eligible securities due to rating changes and
- reduction in the collateral value of ECB-eligible securities and credit receivables.

The results are analysed at least on a monthly basis. Even assuming these stress scenarios, NRW.BANK is able to meet its payment obligations at all times. In addition, the HGB result is subjected to stress tests in the form of rising costs from USD exchange rate hedges.

Liquidity risk management also incorporates compliance both with the German Liquidity Regulation and with the regulatory requirements regarding the minimum reserve. These conditions were met at all times in the fiscal year.

### 5.8.4 Economic Capital

As of the reporting date, the economic capital for liquidity risks under the going concern perspective (income risks of the HGB result for the issuance volume planned for the next twelve months) was € 10.5 million (2016: € 10.5 million).

In addition, the parameters and assumptions of the model are reviewed regularly in the context of various daily, monthly and annual processes.

### 5.8.5 Funding Structure

As a state-guaranteed promotional bank, NRW.BANK again saw strong demand for funding instruments in the past fiscal year. The Bank met investors' demand for state-guaranteed liquid bonds and strengthened its market presence through further benchmark issues. The issues were subscribed by a broad investor base.

The funding transactions with domestic investors are dominated by bearer bonds, promissory loans and registered bonds.

NRW.BANK also used its international funding programmes. These essentially comprise the Debt Issuance Programme, which covers medium and long-term maturities, and the Global Commercial Paper Programme, which covers maturities of up to twelve months. The GCP Programme constituted a particularly favourable source of funding for NRW.BANK throughout the fiscal year.

#### 5.8.6 Opportunities

NRW.BANK continues to attract strong demand from investors thanks to its status as a promotional bank and the funding guarantee granted by the Federal State of North Rhine-Westphalia. This is reflected in a favourable funding environment for the Bank; NRW.BANK will therefore expand the long-term funding volume moderately in 2018. Additional opportunities may arise for the coverage of short-term liquidity, which may take place in different money market segments, depending on the financial markets.

### 5.9 Operational risk

#### 5.9.1 Definition

Operational risk comprises risks in systems or processes, specifically resulting from human or technical failure, external events or legal risks resulting from contractual agreements or applicable law.

#### 5.9.2 Methods

The framework for operational risk management at NRW.BANK incorporates both qualitative and quantitative aspects. Quantitative management of the economic capital is based on the basic indicator approach, while qualitative management is based on the MaRisk requirements.

By using a combination of decentralised and centralised risk management and risk monitoring, the Bank ensures that management can respond promptly as needed, and that the Managing Board can simultaneously take the necessary decisions based on the Bank's overall risk profile.

Since 2004, NRW.BANK has collected information on losses and loss-free risk events in a central risk event database and categorised them in accordance with the Basle event categories. The data collection serves as the basis for the assessment of operational risks at NRW.BANK. The results of the annual forward-looking self-assessments and the findings resulting from scenario analyses and from the monitoring of risk indicators are also included in the overall assessment of the risk situation.

Comprehensive, business-process-oriented emergency plans exist for particularly mission-critical events such as a major loss of staff, breakdown of a bank building or a computing centre. The contingency plans cover all areas and are designed to prevent high financial and reputational risks.

The Bank's insurance cover is reviewed regularly to ensure that it is appropriate.

NRW.BANK uses standardised contracts to minimise legal risks from transactions. Deviations from standardised contracts and individual transactions are approved by the Legal business unit. The Bank is currently not involved in any significant pending proceedings.

Operational risks are mitigated by, among other things, the instructions in the written orders as defined in the internal control system (ICS). These comprise all processes, methods and control measures ordered by the Managing Board which serve to ensure the proper and safe functioning of the operational processes. The ICS comprises general principles and requirements for

working and behavioural practices, e.g. the four-eye principle, but also specific process-related instructions. In the event of material changes in the structural and operational organisation as well as in the IT systems, the business units involved in the downstream work-flows as well as the Risk Control function, the Compliance function and Internal Audit analyse the effects on the control procedures and the intensity of control.

Human resources risks are initially managed in the context of regular human resources planning. HR-related measures are implemented in close consultation between the respective business units and the Human Resources business unit. As part of the observation of risk indicators, indicators, e. g. regarding staff turnover or further training, are monitored in order to respond to undesirable developments at an early stage.

Operational risks in NRW.BANK's IT environment are managed on the basis of the IT strategy. The written instructions include rules for the use, procurement and development of hardware and software, with the main emphasis on compliance with the necessary security standards and business continuity. Appropriate authorisation concepts and processes additionally have a risk-mitigating effect. Contingency plans exist for the breakdown of all critical IT systems. In addition, extensive security measures are in place to protect the Bank against cyber risks, i.e. the unauthorised access to computers or network systems (e.g. hacking, data theft, virus attacks).

Risks that may result from the outsourcing of material business activities are mitigated by an established audit and monitoring process, which primarily consists of a detailed risk analysis as the basis for a possible outsourcing decision to limit outsourcing risks.

In addition, the Bank effectively mitigates risks related to (MaRisk and WpHG) compliance, money laundering and financing terrorism as well as potential risks arising

from other criminal acts. Bank-wide security procedures, processes for the reporting of suspicions, regular risk analyses as well as self-assessments serve to manage and limit the potential risks arising in conjunction with these topics.

### **5.9.3 Risk Assessment and Limitation**

In the context of the identification and assessment of risks, all losses and risk events are analysed for their causes (including the observation of early warning indicators). Regardless of the current amount of the risk or the risk potential, this is done to ensure that countermeasures can be taken at an early stage if similar events occur.

NRW.BANK performs self-assessments of all operational risks to which the Bank may be exposed. Risks are assessed separately for relevance (probability of occurrence) and frequency.

Neither the operational risk losses and loss-free risk events identified in the reporting year nor the findings from the self-assessments and the observation of early warning indicators have revealed any risks that could jeopardise the existence of the Bank.

The economic capital for operational risks is determined annually in accordance with the basic indicator approach. As the economic capital allocated to cover potential losses thus remains constant throughout the year, no distinction is made between limit and utilisation.

### **5.9.4 Economic Capital**

With regard to the economic capital for operational risks derived from the regulatory basic indicator approach, differences between the going concern perspective and the gone concern perspective result exclusively from scaling to the respective confidence level under the gone concern perspective. As of the reporting date, the economic capital set aside for operational

risks amounted to € 100 million (2016: € 35 million) under the going concern perspective and to € 130 million (2016: € 125 million) under the gone concern perspective.

## 5.10 Pension risk

### 5.10.1 Definition

Pension risk relates to the risk that there is a need to increase the pension provisions.

Pension obligations may increase primarily as a result of changes in the statistical assumptions regarding invalidity and mortality. This is considered as the pension risk in the calculation of economic capital. Strategic interest rate risks related to pension obligations are included in the market risk. In addition, risks resulting from a change in interest rates are considered in the capital cover.

### 5.10.2 Methods

The calculation of the pension provisions requires the actuarial determination of cash flows reflecting future changes in payment obligations over time.

With regard to the period during which pensions are received, invalidity and death must be modelled in the cash flows. This is done on the basis of actuarial mortality tables (Heubeck 2005 G), which are generally accepted for Germany and approved by the tax authorities.

For the mortality tables, no historical changes covering sufficiently long periods are available from which the volatilities required for a VaR model can be derived. This is why the risk of changes in the statistical assumptions regarding invalidity and death is quantified using a scenario analysis in which the cash flows increase based on the assumption of a growing life expectancy. In addition, the probabilities of invalidity are modified as well. To quantify the risk, the scenario showing the strongest impact on the Bank is applied

Differences between the going concern perspective and the gone concern perspective exclusively result from different interest rates used to discount the cash flows.

### 5.10.3 Risk Assessment and Limitation

The pension risk comprises the obligations towards both NRW.BANK's own employees and the employees of Portugal AG employed under a dual contract.

Economic capital is determined once a year, i.e. it is constant throughout the year, the Bank makes thus no distinction between limit and utilisation.

### 5.10.4 Economic Capital

The economic capital set aside for pension risks as of the reporting date amounted to € 60 million (2016: € 60 million) under the going concern perspective and to € 100 million (2016: € 90 million) under the gone concern perspective.

## 5.11 Business and Cost Risk

### 5.11.1 Definition

Business risk describes the risk of changes in the economic environment (market and/or demand) or the legal (incl. tax) environment as a result of which income may be reduced. Cost risk means that the planned personnel and operating expenses are exceeded or that unplanned costs become effective. A cost risk could arise, for instance, as a result of projects that are not foreseeable today, e. g. in the context of the national and European banking supervision or accounting.

The business and cost risk was classified as non-material in the risk inventory. This risk is nevertheless backed by economic capital to ensure comprehensive management of the risk-bearing capacity.

### 5.11.2 Methods

A general risk amount is defined on the basis of a simplified procedure for a one-year risk horizon, which

is consistent with other risk types. For this purpose, the deviations from the projected balance of income and administrative expenses are determined for the fiscal years since the inception of the Bank. From the negative deviations, mean and standard deviations are determined, from which the economic capital at the chosen confidence level is derived.

### 5.11.3 Risk Assessment and Limitation

Developments from which business and cost risks may arise are analysed on a regular basis. This includes, in particular, a review of the internal and external premises on which the strategy of NRW.BANK is based. If required, adjustments are implemented in the context of the strategy process, for which the Managing Board is directly responsible.

Economic capital is calculated once a year. As this means that it is constant throughout the year, the Bank makes no distinction between limit and utilisation.

### 5.11.4 Economic Capital

As of the reporting date, the economic capital set aside for the business and cost risk amounted to € 50 million under the going concern perspective and to € 65 million under the gone concern perspective (differences result from different interest rates used to discount the cash flows). No changes have occurred compared to the previous year.

### 5.12 Reporting

In accordance with the MaRisk provisions, the Risk Control business unit ensures market-independent and regular reporting to the Managing Board and the Risk Committee.

Daily reports are produced for the Managing Board both on Bank-wide level and for the capital market business. These include risk positions and trading results as well as all cases where limits for market risks and liquidity risks as well as counterparty and issuer limits are exceeded.

As a general standard, the monthly risk report covers the following topics: Bank-wide risk management, credit risks, market risks, liquidity risks, operational risks and profit performance. It forms the basis for the discussion of the risk situation in the ALCO and the Credit Committee. Besides the standardised content, the report covers risk-relevant special topics as required. Every quarter, it covers the Bank-wide stress tests across all risk types.

The quarterly reports to the Risk Committee are based on the monthly reports that are relevant for the quarter; while the level of detail is reduced with a view to the recipients, all material aspects are addressed. In addition, extraordinary events which are material from a risk perspective immediately trigger an (ad-hoc) report.

## 6 Internal Control System Relevant for the Financial Reporting Process

NRW.BANK's internal control system (ICS) is to ensure that the financial statements present a true and fair view of the net worth, financial and result of operations of the Bank in accordance with applicable legal provisions and standards. It primarily comprises regulations governing the organisational and operational structure and makes a clear distinction between responsibilities as well as processes, procedures and measures to ensure the appropriateness and reliability of internal and external accounting.

The Managing Board of NRW.BANK is responsible for the creation and effective maintenance of an appropriate accounting-related internal control system. Responsibility for implementation rests with the Finance business unit in cooperation with the business units Business Support and Risk Control.

Accounting-related business events are mostly handled locally. All accounting-relevant events are initiated in IT systems. The respective business units are responsible for full and proper capture and for implementing and documenting the required controls. Bank-wide func-

nal responsibility for the accounting rules, the booking system, accounting and the definition of the valuation principles rests with the Finance business unit. This ensures that consistent accounting and valuation principles are applied within NRW.BANK even where business transactions are recorded locally. Risk Control is responsible for the trading-independent valuation and results analysis.

In the context of the Management Information System, a standardised report on the income statement, the cost centre statement, total assets, the business volume and the planning and budgeting process is sent to the Managing Board each month to ensure timely reporting. The Managing Board regularly informs the Supervisory Board and its committees about the current business situation.

The financial statements are prepared by the Finance business unit and drawn up by the Managing Board. In accordance with the Statutes, the Board of Guarantors of NRW.BANK approves and endorses the financial statements, which are published in the electronic Federal Gazette within the statutory deadlines.

On the basis of legal standards, especially of the German Commercial Code (HGB) and the "Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute" (Ordinance on accounting by banks and financial institutions – RechKredV), NRW.BANK's accounting process is described and laid down in manuals and work instructions. These written orders are updated on a regular basis. All employees have direct access to the corresponding manuals via NRW.BANK's intranet. Compliance to the manuals is mandatory.

The Finance business unit examines all new legislation for its potential relevance to the Bank's accounting process. Necessary adjustments to processes and manuals are implemented in a timely manner. The management and monitoring of new products are

coordinated by the Risk Control business unit in a standardised process. In this context, an accounting-related analysis of the products and the associated risks is carried out with a view to ensuring accurate accounting.

The front-office business units are functionally and organisationally separated from the business units responsible for settlement, monitoring and control. This separation is also reflected in the responsibilities of the individual Managing Board members. The authorities and responsibilities are laid down in detail in the individual specialist business units. Employees involved in accounting-relevant processes have the knowledge and experience required for their respective tasks. Where required, external experts are called in for certain calculations, e.g. the measurement of pension obligations.

Besides the minimum requirements of the four-eye principle, the use of standard software is a key element of the internal control system. The software is protected against unauthorised access by means of authorisations reflecting users' competence levels. In addition, system-immanent plausibility checks, standardised coordination routines and target-actual comparisons serve to check completeness and avoid and identify errors. For instance, the figures determined in the accounting process are checked for plausibility on a monthly basis by means of comparisons with prior-year figures and planning figures and on the basis of the actual business trend. Inconsistencies are addressed jointly by the external and internal accounting Departments.

The Supervisory Board establishes an Audit Committee from among its members. In accordance with the Statutes and the Public Corporate Governance Code of NRW.BANK, the Audit Committee addresses matters such as accounting-related issues, the selection of the auditors and the verification of their independence, the commissioning of the auditors to carry out the

audit, the definition of focal points for the audit and the auditor's fee.

The auditor is appointed by the Board of Guarantors at the recommendation of the Supervisory Board/Audit Committee.

The auditor participates in the Supervisory Board's and the Board of Guarantors' consultations regarding the financial statements and reports on the key results of the audit.

The functionality of the accounting-related internal control system is additionally monitored by Internal Audit through regular process-independent tests in accordance with the MaRisk requirements published by the Federal Financial Supervisory Authority (BaFin). The Managing Board and the Supervisory Board are informed of the results of the tests in a timely manner.

# Balance Sheet

of NRW.BANK at December 31, 2017

## Assets

see Notes No.		Dec. 31, 2016	
	€	€	€ thousands
<b>1. Cash</b>			
a) cash on hand	8,716.28		8
b) balances with central banks	3,190,890,148.28		506,281
thereof:			
with Deutsche Bundesbank € 3,190,890,148.28			(506,281)
		<b>3,190,898,864.56</b>	506,289
<b>2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks</b>			
a) treasury bills and discounted treasury notes as well as similar debt instruments issued by public institutions		<b>23,554,984.39</b>	0
thereof:			
eligible for refinancing with Deutsche Bundesbank € 23,554,984.39			(0)
<b>3. Receivables from banks</b> <b>1, 10, 22, 25, 26</b>			
a) payable on demand	3,802,703,177.00		678,532
b) other receivables	37,558,345,138.42		35,171,384
		<b>41,361,048,315.42</b>	35,849,916
<b>4. Receivables from customers</b> <b>2, 10, 22, 25, 26</b>		<b>58,236,305,609.57</b>	59,687,528
thereof:			
secured by mortgages € 4,087,249.08			(5,458)
loans to public authorities and entities under public law € 37,312,308,231.23			(37,246,603)
		<b>102,811,807,773.94</b>	96,043,733
	To be carried forward:		

## Liabilities

see Notes No.

Dec. 31, 2016

	€	€	€ thousands
<b>1. Liabilities to banks</b>	<b>12, 22, 25, 26</b>		
a) payable on demand	1,612,270,768.56		2,449,616
b) with agreed maturity or period of notice	39,415,659,925.90		36,658,291
		<b>41,027,930,694.46</b>	<b>39,107,907</b>
<b>2. Liabilities to customers</b>	<b>13, 22, 26</b>		
a) other liabilities			
aa) payable on demand	309,787,920.15		308,718
ab) with agreed maturity or period of notice	15,333,274,912.22		16,050,620
		<b>15,643,062,832.37</b>	<b>16,359,338</b>
<b>3. Certificated liabilities</b>	<b>14, 22, 26</b>		
a) bonds and notes issued by the bank	64,009,759,356.32		60,499,887
		<b>64,009,759,356.32</b>	<b>60,499,887</b>
<b>3a. Trading portfolio</b>	<b>15</b>	<b>0.00</b>	<b>227</b>
<b>4. Trust liabilities</b>	<b>16</b>	<b>1,463,850,430.92</b>	<b>1,558,058</b>
thereof:			
trust loans € 1,399,817,635.97			(1,491,759)
<b>5. Other liabilities</b>	<b>17, 22</b>	<b>1,542,330,512.62</b>	<b>674,596</b>
<b>6. Deferred items</b>	<b>18, 22</b>	<b>793,958,865.30</b>	<b>812,414</b>
<b>7. Provisions</b>	<b>19</b>		
a) provisions for pensions and similar obligations	1,883,069,430.00		1,817,092
b) tax reserves	1,956,564.20		8,208
c) provisions for interest rate subsidies	105,605,025.66		93,788
d) other	423,976,824.13		402,204
		<b>2,414,607,843.99</b>	<b>2,321,292</b>
<b>8. Subordinated liabilities</b>	<b>20</b>	<b>1,847,220,207.00</b>	<b>1,941,520</b>
thereof:			
due in less than two years € 192,600,000.00			(177,400)
		<b>128,742,720,742.98</b>	<b>123,275,239</b>
	To be carried forward:		

# Balance Sheet

of NRW.BANK at December 31, 2017

## Assets

		see Notes No.		Dec. 31, 2016	
		€	€	€	€ thousands
			Carried forward:	<b>102,811,807,773.94</b>	96,043,733
<b>5. Bonds and other interest-bearing securities</b>	<b>3, 7, 11, 22, 25, 26</b>				
a) money market instruments					
aa) of public institutions	718,264,076.82				0
thereof: eligible as collateral for Deutsche Bundesbank advances	€ 125,385,375.00				
ab) of other issuers	280,363,812.14				0
thereof: eligible as collateral for Deutsche Bundesbank advances	€ 280,363,812.14				
			998,627,888.96		0
b) bonds and notes					
ba) of public institutions	19,486,520,021.50				20,813,618
thereof: eligible as collateral for Deutsche Bundesbank advances	€ 16,293,714,293.33				(17,722,249)
bb) of other issuers	18,309,623,604.29				17,800,831
thereof: eligible as collateral for Deutsche Bundesbank advances	€ 15,714,831,811.96				(14,008,189)
			37,796,143,625.79	<b>38,794,771,514.75</b>	38,614,449
					38,614,449
<b>6a. Trading portfolio</b>	<b>4, 22</b>			<b>395,120,016.91</b>	7
<b>7. Equity investments in non-affiliated companies</b>	<b>5, 7</b>			<b>2,300,581,833.12</b>	2,298,371
thereof: equity investments in banks	€ 2,243,772,546.20				(2,243,773)
<b>8. Equity investments in affiliated companies</b>	<b>5, 7</b>			<b>201,869,238.26</b>	181,153
<b>9. Trust assets</b>	<b>6</b>			<b>1,463,850,430.92</b>	1,558,058
thereof: trust loans	€ 1,399,817,635.97				(1,491,759)
<b>10. Intangible assets</b>	<b>7</b>			<b>5,939,244.88</b>	6,732
<b>11. Tangible assets</b>	<b>7</b>			<b>69,301,945.12</b>	69,800
<b>12. Other assets</b>	<b>8, 22</b>			<b>1,070,264,907.74</b>	2,951,597
<b>13. Deferred items</b>	<b>9, 22</b>			<b>470,302,707.64</b>	341,778
<b>Total assets</b>				<b>147,583,809,613.28</b>	142,065,678

## Liabilities

see Notes No.

Dec. 31, 2016

	€	€	€ thousands
	Carried forward:	<b>128,742,720,742.98</b>	123,275,239
<b>9. Fund for general banking risks</b>		<b>857,899,000.00</b>	807,899
thereof: special item pursuant to Section 340e Para. 4 HGB € 2,899,000.00			(2,899)
<b>10. Equity capital</b>	<b>21</b>		
a) subscribed capital	17,000,000,000.00		17,000,000
b) capital reserves	727,442,741.88		726,793
c) reserves from retained earnings			
ca) reserves required by NRW.BANK's Statutes	36,100,000.00		36,100
cb) other reserves	219,647,128.42		219,647
d) profit for the year	0.00		0
		<b>17,983,189,870.30</b>	17,982,540
<b>Total liabilities</b>		<b>147,583,809,613.28</b>	142,065,678
<b>1. Contingent liabilities</b>	<b>22, 23, 30</b>		
liabilities from guarantees and indemnity agreements		<b>14,206,868,683.07</b>	15,529,676
<b>2. Other commitments</b>	<b>22, 24</b>		
irrevocable loan commitments		<b>4,705,815,903.20</b>	4,375,365
<b>3. Administered funds</b>		<b>33,736,204.26</b>	44,254

# Income Statement

of NRW.BANK for the Period January 1–December 31, 2017

	see Notes No.			Jan. 1 – Dec. 31, 2016
	€	€	€	€ thousands
<b>1. Interest income from</b>				
a) lending and money market transactions		3,360,624,270.35		3,556,967
b) interest-bearing securities and book-entry securities		765,502,748.03		923,241
thereof:		4,126,127,018.38		4,480,208
from negative interest € 15,177,292.75				(9,235)
<b>2. Interest expenses</b>		3,516,145,402.21		3,868,409
thereof:				(51,782)
from positive interest € 75,617,671.22				
			<b>609,981,616.17</b>	611,799
<b>3. Income from</b>				
a) equity investments in non-affiliated companies		11,284,065.64		3,902
b) equity investments in affiliated companies		11,463,641.48		10,324
			<b>22,747,707.12</b>	14,226
<b>4. Income from profit pooling, profit transfer and partial profit transfer agreements</b>			<b>2,117,175.69</b>	2,799
<b>5. Commission income</b>	<b>27</b>	96,376,561.62		120,593
<b>6. Commission expenses</b>		8,615,191.19		11,406
			<b>87,761,370.43</b>	109,187
<b>7. Net expenses from trading portfolio</b>			<b>1,222,522.83</b>	-1,544
<b>8. Other operating income</b>	<b>28</b>		<b>49,661,413.97</b>	31,831
<b>9. General administrative expenses</b>				
a) personnel expenses	<b>31</b>			
aa) wages and salaries		102,393,675.14		103,424
ab) social security contributions and expenses for pensions and other employee benefits		23,839,421.77		22,108
thereof:		126,233,096.91		125,532
for pensions € 4,106,195.40				(7,211)
b) other administrative expenses	<b>29, 32</b>	87,528,707.81		84,756
			<b>213,761,804.72</b>	210,288
<b>10. Depreciation and value adjustments on intangible and tangible assets</b>			<b>4,751,006.75</b>	4,927
<b>11. Other operating expenses</b>	<b>28</b>		<b>157,034,601.12</b>	90,848
			<b>395,499,347.96</b>	465,323
		To be carried forward:		

see Notes No.

Jan. 1 –  
Dec. 31, 2016

	€	€	€ thousands
	Carried forward:	<b>395,499,347.96</b>	465,323
<b>12. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions</b>		<b>551,359,639.43</b>	610,768
thereof: allocation to fund for general banking risks € 50,000,000.00			(50,000)
<b>13. Income from write-ups of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as tangible assets</b>		<b>174,042,222.68</b>	165,100
<b>14. Expenses from the assumption of losses</b>		<b>0.00</b>	0
<b>15. Result from normal operations</b>		<b>18,181,931.21</b>	19,655
<b>16. Taxes on income and revenues</b>	7,828,045.09		7,468
<b>17. Other taxes not shown under other operating expenses</b>	140,910.13	<b>7,968,955.22</b>	161 7,629
<b>18. Net income</b>		<b>10,212,975.99</b>	12,026
<b>19. Designated payout due to legal requirements</b>	33	<b>10,212,975.99</b>	12,026
<b>20. Profit for the year</b>		<b>0.00</b>	0

# Notes

## of NRW.BANK for the Fiscal Year 2017

### Information for the Identification of the Bank

The following information is provided to identify NRW.BANK in accordance with Section 264 Para. 1a HGB:

#### Company name

NRW.BANK  
Anstalt des öffentlichen Rechts

#### Registered office

Düsseldorf	Münster
Kavalleriestraße 22	Friedrichstraße 1
40213 Düsseldorf	48145 Münster

#### Commercial Register

Commercial Register A 15277 District Court Düsseldorf  
Commercial Register A 5300 District Court Münster

### Preparation of NRW.BANK's Annual Accounts

The annual accounts of NRW.BANK were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), the Ordinance Regarding Accounting for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), the Act on NRW.BANK (NRW.BANK G) and NRW.BANK's Statutes. Information that may appear either on the balance sheet or in the notes is included in the notes. Amounts in the notes are generally given in € millions.

As in the previous year, assets and liabilities in the present annual accounts have been recognised at amortised cost in accordance with Sections 252 et seq. HGB.

The subsidiaries in the NRW.BANK Group are not of material importance either individually or collectively. Consolidated financial statements are not prepared.

### Accounting and Valuation Principles

Assets, liabilities and open contracts are valued in accordance with Sections 340 et seq. HGB in conjunction with Sections 252 et seq. HGB.

### 1. General

Receivables are reported at their amortised cost less any discounts where appropriate. Premiums and discounts from notes and bonds are released by the end of the term. Liabilities are carried at their settlement amount with any related discounts reported under deferred items. Premiums on receivables and liabilities are reported under deferred items as an asset or liability, respectively. These items are released on a straight-line basis. The proportionate amount of accrued interest on a receivable or liability at year-end is generally included with the receivable or liability to which it applies. Non-interest-bearing loans to employees are reported at their amortised cost in accordance with tax regulations. Zero-coupon bonds are carried as liabilities at their issue price plus interest accrued as of the reporting date.

According to a decision made by the Specialist Committee on Banking (Bankenfachausschuss – BFA) of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) on June 23, 2015, negative interest included in the net interest income has to be shown separately in the income statement (P&L). The Specialist Committee on Banking justifies this by saying that negative interest is an unusual phenomenon in money and capital markets. In the fiscal year 2017, NRW.BANK therefore discloses negative interest by open deduction as a sub-item of interest income (reduction in interest income on the assets side) and interest expenses (reduction in interest expenses on the liabilities side) in the income statement. Negative interest from swap transactions is netted and therefore not included in this item.

Repurchase agreements and reverse repurchase agreements are combinations of a spot purchase or sale of securities with a simultaneous forward sale or repurchase transaction entered into with the same counterparty. Securities purchased with an obligation to sell (reverse repurchase agreements), and securities sold with an obligation to repurchase (repurchase agreements), are generally regarded as collateralised financial transactions. The securities pledged under repurchase agreements (spot sale) are still recognised as part of the securities portfolio. The cash deposit received as part of the repurchase agreement, including

accrued interest, is recognised as a liability. In the case of reverse repurchase agreements, a corresponding receivable is recognised, including accrued interest. The underlying securities received in pledge (spot purchase) are not recognised on the balance sheet.

In securities lending transactions, the lender transfers securities held in its portfolio to the borrower for a certain period of time. The borrower undertakes to retransfer the same type and the same amount of securities at the end of the lending period. According to prevailing legal opinion, this is a non-cash loan. The lender is obliged to assign the securities to the borrower; the borrower assumes all rights associated with the securities. Regardless of this, the lender remains the beneficial owner of the lent securities according to prevailing legal opinion. Consequently, the securities are not recognised in the borrower's balance sheet but continue to be recognised in the lender's balance sheet, as the latter remains the beneficial owner.

Discernible risks in the lending business were adequately covered by individual value adjustments (Einzelwertberichtigungen – EWB) and provisions. General value adjustments (Pauschalwertberichtigungen – PWB) were formed in accordance with tax valuation methods for latent risks from receivables and recourse receivables. Value adjustments were deducted from assets in the longest remaining maturity range. Non-performing loans were written off. The off-balance sheet contingent liabilities were reduced by the provisions established for potential losses from contingent liabilities.

The principles of the IDW statement on accounting "Zur einheitlichen oder getrennten handelsrechtlichen Bilanzierung strukturierter Finanzinstrumente" (On Uniform or Separate Accounting under Commercial Law for Structured Financial Instruments) (IDW RS HFA 22) are incorporated in the current financial statements. According to these principles, each structured financial instrument held in the investment book including securities issued is generally recognised as an integral asset or an integral liability. In those cases where the structured financial instrument has much higher or additional risks or opportunities than the

basic instrument due to an embedded derivative, each individual component of the asset or liability is recognised separately as an underlying transaction and a derivative in accordance with the relevant HGB principles. In those cases where the recognition as an integral asset or an integral liability gives a fair view of the net assets, financial position and result of operations, such recognition is applied.

In the context of the determination of the fair value, NRW.BANK applies mark-to-market valuation provided that an active market exists for a given security. In this case, the valuation is based on the liquid prices provided by respected market data providers (such as Reuters or Bloomberg). In addition, the discounted cash flow method is used for mark-to-model valuation. Under the discounted cash flow method, the contractually agreed cash flows of an instrument (without options) are discounted using risk-adjusted interest rates (use of spread curves). To the extent possible, interest curves based on curves quoted in the market are used. In exceptional cases, the spreads used for discounting are taken from research publications or, alternatively, provided by external market participants and verified independently by the Risk Control business unit.

Structured derivatives and other structured products are valued on the basis of generally accepted models (Black 76, Normal-Black 76, Normal-Black 76 with extension for CMS spread instruments, One, Two and Three Factor Model of Interest Rates, Hazard Rate Model, One Factor Gauss Copula Model). Here, too, valuation parameters based on standard market data sources are used (such as Reuters or Markit).

When using models, standard model assumptions are made. Valuation uncertainties primarily result from uncertainties of the parameters used and the assumptions on which the models are based.

## **2. Promotional Loans of the Housing Promotion Business Unit**

The Housing Promotion business unit's promotional loans to customers and banks, most of which are at no interest or below-market interest, are carried at their nominal value. This recognises the fact that these loans

are funded at matching maturities from equity capital and takes into account the interest balance guarantee under which the State of North Rhine-Westphalia would compensate for any negative interest balance for all promotional loans granted by the Housing Promotion business unit up to December 31, 2009. No negative interest balance existed for these receivables as of the balance sheet date.

All loans granted by the Housing Promotion business unit after December 31, 2009 are not covered by the interest balance guarantee of the State of North Rhine-Westphalia. Up to the balance sheet date, the Bank exclusively used equity capital to finance these non-guaranteed loans.

### 3. Loss-Free Valuation of the Banking Book

According to the IDW statement "Einzelfragen der verlustfreien Bewertung von zinsbezogenen Geschäften des Bankbuchs (Zinsbuchs)" (Individual Aspects of the Loss-Free Valuation of Interest-Related Transactions in the Banking Book) (Interest Book) (IDW RS BFA 3), a provision for contingent losses must be established for a surplus of obligations resulting from the banking and interest book in an overall view of the transactions. NRW.BANK performed the corresponding calculations in the 2017 financial statements, for which a periodic (P&L-oriented) view was taken. The present value of the future interest result of the banking book was reduced by pro-rated risk and administrative costs for the total term. The calculation did not result in a surplus of obligations, which means that there was no need to establish a provision for contingent losses.

### 4. Securities and Derivatives in the Investment Portfolio

Securities treated as fixed assets (financial investment portfolio) are valued at amortised cost. If an impairment is expected to be permanent, they are written down to the lower fair value. Where securities in the financial investment portfolio are recognised at values which exceed the current market or stock exchange values in accordance with the mitigated lower of cost or market principle, these differences are stated in the notes. This information is subject to change over time due to port-

folio changes as well as interest rate-induced movements and/or risk-induced movements.

For securities held in the financial investment portfolio with a carrying value of € 5,170,923,186.90 lower market values of € 5,108,423,889.85 were determined.

Because these securities have been funded and/or hedged at matching maturities and interest rates, and because none of the issuers' credit ratings indicated sustained weakening (no permanent impairment in value expected), it was not necessary to write the securities down to market value.

Revaluation adjustments relating to derivative transactions in the financial investment portfolio are not recognised. These derivatives are microhedges and/or macrohedges in the form of interest rate and currency derivatives, which serve to hedge individual risk positions or to manage the Bank's overall exposure to interest rate risk, as well as credit default swaps (CDS), which are used as credit substitute transactions.

### 5. Securities Held in the Liquidity Reserve

Securities held in the liquidity reserve are valued according to the strict lower of cost or market principle. If the carrying value exceeds the fair value, they are recognised at the lower fair value on the reporting date.

### 6. Financial Instruments of the Trading Portfolio

In accordance with Section 340e Para. 3 HGB, financial instruments in the trading portfolio are measured at fair value less a risk discount of € 1.1 million (2016: € 0.2 million).

The risk discount was calculated on the basis of the value-at-risk (VaR) model, which the Risk Control business unit also uses for internal monitoring of the market price risks of the trading book. The regulatory requirements of a confidence level of 99% and a holding period of ten days were applied. The historical observation period for the determination of the statistical parameters is 250 days, with a greater weight placed on incidents in the more recent past.

The internally defined criteria for the inclusion of financial instruments in the trading portfolio remained unchanged in the past fiscal year.

Due to the negative net result from trading portfolio posted as of December 31, 2017, no allocation from the net result of the trading portfolio was made to the "Fund for general banking risks" pursuant to Section 340g HGB (2016: € 172.0 thousand). A release of this special item permissible pursuant to Section 340e Para. 4 Sentence 2 No. 1 HGB was not made.

### **7. Equity Investments in Non-Affiliated and Affiliated Companies**

Equity investments in affiliated and non-affiliated companies are carried at cost taking existing collateral into account; where a loss of value is expected to be permanent, they are written down to the lower fair value.

With regard to the equity investment in Portigon AG, the State of North Rhine-Westphalia has issued an indefinite value guarantee to NRW.BANK to hedge the equity investment risk. In the case of a sale, the difference between the proceeds and a value of € 2,200.0 million is guaranteed.

NRW.BANK treats the equity investment in Portigon AG and the value guarantee as a hedge relationship as defined in Section 254 HGB, which is accounted for using the net hedge presentation method. Accordingly, the equity investment in Portigon AG was recognised at an amount of € 2,190.8 million as of December 31, 2017.

### **8. Tangible and Intangible Assets**

Tangible and purchased intangible assets with a limited useful life are depreciated in accordance with the applicable tax regulations. They are written down for impairment where such impairment is likely to be permanent.

### **9. Provisions**

Provisions have been made for contingent liabilities and anticipated losses from open contracts in the amount of the settlement amount that will be required according to prudent commercial judgement.

Provisions for pension obligations with a remaining maturity of more than one year are discounted at the average market rate of the past ten fiscal years as appropriate for the respective remaining maturity in accordance with Section 253 Para. 2 Sentence 1 HGB. By contrast, other provisions with a remaining maturity of more than one year are discounted using the average market rate of the past seven years as appropriate for the respective remaining maturity.

In accordance with the option granted under Section 253 Para. 2 Sentence 2 HGB, NRW.BANK has discounted provisions for pension obligations or comparable long-term obligations using the average market rate for an assumed remaining maturity of fifteen years. The interest rate of 3.68% (2016: 4.01%) used for discounting was stipulated by Deutsche Bundesbank.

The difference arising from the recognition of pension provisions using the average market rate of the past ten fiscal years and the recognition of pension provisions using the average market rate for the past seven years in the amount of € 252.8 million (2016: € 212.6 million), which is determined in accordance with Section 253 Para. 6 Sentence 1 HGB, is subject to a payout restriction pursuant to Section 253 Para. 6 Sentence 2 HGB, according to which profits may be distributed only if the free reserves remaining after the profit distribution plus a profit carried forward and minus a loss carried forward are equivalent to at least the amount of the difference.

Pension, benefit and other personnel provisions are measured by using the internationally accepted projected unit credit method, taking the future development of wages and pensions into account. Based on the 2005 G tables of Heubeck-Richttafeln-GmbH in Cologne, average wage and salary rises of 2.5% were applied for this purpose.

The assessment of the provisions for benefit payments was calculated using an annual cost increase of 3.5% (2016: 3.0%) for healthcare benefits. The average rate of the benefit payments over the past three years was taken as the basis.

Interest rate effects from the valuation of pension, benefit and other personnel provisions are recognised in the other operating result in the income statement.

As in the previous years, NRW.BANK used interest rate subsidies for certain loans in order to fulfil its state promotional tasks. When the loan is extended, the interest rate subsidy is provisioned for in the amount of the present value.

The option pursuant to Article 67 Para. 1 Sentence 2 of the Introductory Act to the Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB) was exercised in 2010 in such a way that the existing provisions are maintained due to excess cover, as the amount to be released in the context of a required release would have to be reallocated by December 31, 2024 at the latest. As of December 31, 2017, excess cover of € 17.0 thousand (2016: € 27.2 thousand) exists for these provisions.

#### 10. Currency Translation

Foreign currency amounts are translated in accordance with Section 256a HGB in conjunction with Section 340h HGB as well as the IDW statement "Besonderheiten der handelsrechtlichen Fremdwährungsumrechnung bei Instituten" (Special Aspects of Currency Translation at Institutions under Commercial Law) (IDW RS BFA 4). Assets, liabilities and pending transactions denominated in foreign currencies were translated using the spot exchange rate on December 29, 2017. In this context, NRW.BANK uses the reference rates of the European System of Central Banks (ESCB). In case of foreign exchange forwards, the forward rate is split into a spot rate and a swap rate.

For the translation of foreign currencies, NRW.BANK determines the foreign currency positions by offsetting the claims and obligations of all foreign currency assets, liabilities and pending transactions in the respective foreign currency. In accordance with Section 256a HGB in conjunction with Section 340h HGB, these transactions are classified and valued as being specifically covered in all currencies. Accordingly, all income and expenses from foreign currency translation are stated in the income statement pursuant to Section 340h HGB and shown as "Foreign currency result" in "Net expenses from trading portfolio" or "Net profit from trading portfolio".

Negative revaluation adjustments resulting from the currency translation of foreign exchange forwards as at December 31, 2017 are recognised as "Adjustment item from currency translation in accordance with Section 340h HGB" under "Other liabilities".

#### 11. Deferred Tax Assets

Due to NRW.BANK's exemption from income tax, deferred taxes primarily relate to investments in commercial partnerships held as part of the public mission. In accordance with Section 274 Para. 1 Sentence 2 HGB, no deferred taxes were recognised for the deductible temporary differences which result in a tax reduction.

## Balance Sheet

### Receivables from Banks (1)

Breakdown by maturity	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Payable on demand	3,802.7	678.5
Other receivables		
– up to 3 months	1,610.1	2,343.5
– between 3 months and 1 year	4,021.6	3,016.3
– between 1 and 5 years	13,802.8	12,937.4
– more than 5 years	18,123.8	16,874.2
<b>Total receivables from banks</b>	<b>41,361.0</b>	<b>35,849.9</b>

The receivables from other companies in which equity investments are held totalled € 92.1 million (2016: € 12.6 million).

### Receivables from Customers (2)

Breakdown by maturity	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
– up to 3 months	2,978.0	3,810.3
– between 3 months and 1 year	3,985.6	4,463.3
– between 1 and 5 years	16,775.7	13,625.1
– more than 5 years	34,497.0	37,788.8
<b>Total receivables from customers</b>	<b>58,236.3</b>	<b>59,687.5</b>

The receivables from companies in which equity investments are held totalled € 1.6 million (2016: € 1.7 million).

### Bonds and Other Interest-Bearing Securities (3)

Marketability	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Bonds and other interest-bearing securities		
– listed on a stock exchange	34,688.9	35,194.7
– not listed on a stock exchange	4,105.9	3,419.7
<b>Total bonds and other interest-bearing securities</b>	<b>38,794.8</b>	<b>38,614.4</b>

Of the bonds and other interest-bearing securities, an amount of € 7,901.6 million (2016: € 4,169.9 million) is due in the following year.

Of the total bonds and other interest-bearing securities, € 982.4 million (2016: € 0.0 million) are held as part of the liquidity reserve and € 37,812.4 million (2016: € 38,614.4 million) are held in the financial investment portfolio.

**Trading Portfolio (Assets) (4)****Breakdown of trading portfolio (assets)**

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Derivative financial instruments	0.9	0.0
Bonds and other interest-bearing securities	395.3	0.0
Risk discount pursuant to Section 340e Para. 3 Sentence 1 HGB	-1.1	-
<b>Total trading portfolio</b>	<b>395.1</b>	<b>0.0</b>

Derivative financial instruments include futures with a positive market value of € 37.1 thousand (2016: € 98.3 thousand). This market value is offset against the opposite variation margin received from futures.

As the risk discount as at December 31, 2016 would have led to a negative value for the trading portfolio (assets) due to the low number of financial instruments held, the risk discount was recognised as a risk premium in the trading portfolio (liabilities) in the previous year.

**Equity Investments in Non-Affiliated and Affiliated Companies (5)**

NRW.BANK holds € 2,300.6 million (2016: € 2,298.4 million) in equity investments in non-affiliated companies and € 201.9 million (2016: € 181.2 million) in equity investments in affiliated companies. As in the previous year, € 2,193.9 million of the equity investments in non-affiliated companies are securitised by marketable securities. However, none are listed on a stock exchange.

An itemised list of NRW.BANK's investments pursuant to Section 285 No. 11 and 11a HGB is shown separately in these notes.

NRW.BANK holds more than 5% of the voting rights in the following major corporations:

- Investitionsbank des Landes Brandenburg (ILB)
- Portigon AG

**Trust Assets (6)**

Trust assets comprise the following:

**Breakdown by asset type**

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Receivables from banks	48.5	65.2
Receivables from customers	1,351.4	1,426.6
Equity investments in non-affiliated and affiliated companies	64.0	66.3
<b>Total trust assets</b>	<b>1,463.9</b>	<b>1,558.1</b>

## Changes in Fixed Assets (7)

Schedule of fixed assets	Bonds and other interest-bearing securities forming part of fixed assets	Equity investments in non-affiliated companies	Equity investments in affiliated companies	Intangible assets	Land and buildings	Office equipment
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
<b>Acquisition cost/production cost</b>						
<b>Jan. 1, 2017</b>	<b>38,137.9</b>	<b>3,871.6</b>	<b>230.4</b>	<b>73.6</b>	<b>73.1</b>	<b>26.0</b>
Additions	0.0	7.0	32.3	1.4	0.0	2.0
Retirements	-735.9	-4.6	-11.0	0.0	0.0	-1.6
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0
<b>Dec. 31, 2017</b>	<b>37,402.0</b>	<b>3,874.0</b>	<b>251.7</b>	<b>75.0</b>	<b>73.1</b>	<b>26.4</b>
<b>Write-ups/write-downs</b>						
<b>Jan. 1, 2017</b>				<b>-66.9</b>	<b>-9.9</b>	<b>-19.4</b>
Write-ups				0.0	0.0	0.0
Write-downs				-2.2	-1.3	-1.3
Change in total write-downs from additions				0.0	0.0	0.0
Change in total write-downs from retirements				0.0	0.0	1.7
Change in total write-downs from reclassifications				0.0	0.0	0.0
<b>Dec. 31, 2017</b>				<b>-69.1</b>	<b>-11.2</b>	<b>-19.0</b>
<b>Remaining carrying amounts</b>						
<b>Dec. 31, 2017</b>	<b>37,402.0</b>	<b>2,300.6</b>	<b>201.9</b>	<b>5.9</b>	<b>61.9</b>	<b>7.4</b>
<b>Dec. 31, 2016</b>	<b>38,137.9</b>	<b>2,298.4</b>	<b>181.2</b>	<b>6.7</b>	<b>63.2</b>	<b>6.6</b>

Of the land and buildings, € 61.9 million (2016: € 63.2 million) is used for business purposes.

**Other Assets (8)****Breakdown by individual items**

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Interest receivables from the State of North Rhine-Westphalia under the value guarantee for the equity investment in Portigon AG	559.6	559.3
Option premiums paid	233.5	208.0
Option premiums not yet received	221.7	181.0
Compensation claims to Helaba Landesbank Hessen-Thüringen relating to pension provisions for "dual contract holders"	31.8	29.1
Compensation claims to Portigon AG relating to service cost of "dual contract holders"	8.7	8.6
Cash collateral furnished in the context of the EU bank levy	6.1	3.7
Other	8.9	16.2
Adjustment item from currency translation pursuant to Section 340h HGB	0.0	1,945.7
<b>Total other assets</b>	<b>1,070.3</b>	<b>2,951.6</b>

**Deferred Items (Assets) (9)****Breakdown of deferred items (assets)**

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Prepaid swap fees	258.5	172.7
Prepaid CDS fees	97.9	60.6
Discounts from underwriting business	85.0	82.0
Other	28.9	26.5
<b>Total deferred items</b>	<b>470.3</b>	<b>341.8</b>

**Subordinated Assets (10)**

Subordinated assets are included in:

**Breakdown by asset type**

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Receivables from banks	0.8	0.8
Receivables from customers	22.2	22.5
<b>Total subordinated assets</b>	<b>23.0</b>	<b>23.3</b>

### Pledged Assets (11)

Of the assets reported, NRW.BANK pledged € 4,036.3 million (2016: € 190.2 million) under repurchase agreements.

### Liabilities to Banks (12)

Breakdown by maturity	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Payable on demand	1,612.3	2,449.6
Other liabilities		
– up to 3 months	8,184.0	2,209.9
– between 3 months and 1 year	2,209.7	3,042.1
– between 1 and 5 years	11,428.8	12,233.0
– more than 5 years	17,593.1	19,173.3
<b>Total liabilities to banks</b>	<b>41,027.9</b>	<b>39,107.9</b>

The liabilities to other companies in which equity investments are held totalled € 2.4 million (2016: € 3.6 million).

### Liabilities to Customers (13)

Breakdown by maturity	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Payable on demand	309.8	308.7
Other liabilities		
– up to 3 months	1,072.6	531.0
– between 3 months and 1 year	749.9	686.5
– between 1 and 5 years	4,144.6	4,019.9
– more than 5 years	9,366.2	10,813.2
<b>Total liabilities to customers</b>	<b>15,643.1</b>	<b>16,359.3</b>

Liabilities to customers include liabilities to affiliated companies in the amount of € 64.2 million (2016: € 39.0 million). The liabilities to other companies in which equity investments are held totalled € 5.2 thousand (2016: € 0.0 thousand).

**Certificated Liabilities (14)****Breakdown of certificated liabilities**

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Notes issued		
– mortgage bonds	0.6	0.6
– municipal bonds	262.6	249.6
– other bonds	63,746.6	60,249.7
<b>Total certificated liabilities</b>	<b>64,009.8</b>	<b>60,499.9</b>

Of the notes issued, € 30,821.5 million (2016: € 31,038.6 million) are due in the following year.

**Trading Portfolio (Liabilities) (15)****Breakdown of trading portfolio (liabilities)**

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Derivative financial instruments	0.0	0.0
Risk discount pursuant to Section 340e Para. 3 Sentence 1 HGB	–	0.2
<b>Total trading portfolio</b>	<b>0.0</b>	<b>0.2</b>

Derivative financial instruments include futures with a negative market value of € 69.4 thousand (2016: € 48.8 thousand). This market value is offset against the opposite variation margin paid on futures.

**Trust Liabilities (16)**

Trust liabilities comprise the following:

**Breakdown by liability type**

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Liabilities to banks	4.7	5.1
Liabilities to customers	1,459.2	1,553.0
<b>Total trust liabilities</b>	<b>1,463.9</b>	<b>1,558.1</b>

## Other Liabilities (17)

### Breakdown by individual items

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Adjustment item from currency translation pursuant to Section 340h HGB	560.4	0.0
Liabilities owed to the State of North Rhine-Westphalia from repayment discounts granted for housing promotional programmes	490.5	270.7
Option premiums received	233.3	197.4
Option premiums not yet paid	221.7	181.0
Liabilities owed to employees of NRW.BANK from the fixed bonus	12.8	0.0
Liabilities owed to the State of North Rhine-Westphalia	10.2	12.0
Other	13.4	13.5
<b>Total other liabilities</b>	<b>1,542.3</b>	<b>674.6</b>

## Deferred Items (Liabilities) (18)

### Breakdown of deferred items (liabilities)

	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Swap fees received in advance	470.2	558.5
Premiums from underwriting business	249.3	108.4
Transfer of pension obligation provisions for employees of Portigon AG under "dual contracts"	32.1	86.4
Transfer of salaries for employees of Portigon AG under "dual contracts"	24.5	24.2
CDS fees received in advance	17.6	34.5
Other	0.3	0.4
<b>Total deferred items</b>	<b>794.0</b>	<b>812.4</b>

## Provisions (19)

The provisions for pensions reported in the amount of € 1,883.1 million (2016: € 1,817.1 million) include € 1,307.2 million (2016: € 1,287.4 million) in pension obligations to employees of Portigon AG who have claims for or are entitled to a pension under the laws relating to civil servants. Pursuant to Article 1 Section 4 Para. 1 Sentence 4 of the Bank Redefining Act (Neuregelungsgesetz) of July 2, 2002, these obligations passed from the former Westdeutsche Landesbank Girozentrale to NRW.BANK. Pursuant to the regulations of the assessment dated August 1, 2002, Portigon AG and NRW.BANK agreed in the fiscal year 2013 to settle NRW.BANK's claims resulting from the compensation entitlement for good, with the exception of the future service cost, by means of a one-time payment. With this one-time payment, responsibility for managing and handling the pension payments has passed to NRW.BANK.

The provisions for pensions additionally include pension obligations in the amount of € 31.8 million (2016: € 29.1 million) towards employees of Helaba Landesbank Hessen-Thüringen who also have contractual claims or are entitled to a pension under the laws relating to civil servants. NRW.BANK is entitled to reimbursement from Helaba Landesbank Hessen-Thüringen in the same amount, which is shown in other assets.

NRW.BANK's provisions for additional benefits are at € 308.6 million (2016: € 269.4 million). This amount includes € 249.9 million (2016: € 221.2 million) in obligations to persons covered under the former pension agreement of the former Westdeutsche Landesbank Girozentrale, for which NRW.BANK has assumed the additional benefit payments since the spin-off from the former Westdeutsche Landesbank Girozentrale. An additional € 58.7 million (2016: € 48.2 million) has been set aside for claims to additional benefits that employees of NRW.BANK have for their retirement.

Provisions in an unchanged amount of € 76.7 million exist for potential compensation claims under the value guarantee.

### **Subordinated Liabilities (20)**

The subordinated liability as described below exceeds 10% of the total subordinated liabilities of € 1,847.2 million (2016: € 1,941.5 million).

The State of North Rhine-Westphalia has to make repayments towards the Federal Government in conjunction with the use of housing promotional loans granted by the Federal Government. Under applicable federal state law, NRW.BANK has to transfer the required funds from the repayment of housing promotional loans to the state budget. This transfer duty takes the form of a non-interest-bearing subordinated loan in an amount of € 2,413.9 million granted by the State of North Rhine-Westphalia to NRW.BANK, which has to be repaid by the year 2044 in accordance with a defined repayment plan. Based on the repayments made to date, the subordinated loan was stated in an amount of € 1,592.2 million as of December 31, 2017.

The remaining subordinated liabilities of € 255.0 million have original maturities between fifteen and thirty years and carry interest rates of between 0.0% and 6.0%. There is no early redemption obligation.

Subordinated liabilities include liabilities with a remaining term of less than two years in an amount of € 192.6 million (2016: € 177.4 million).

There are no existing agreements or plans to convert these funds into capital or into another form of debt.

Interest expenses of € 5.5 million (2016: € 6.2 million) were incurred for subordinated liabilities.

The subordinated liabilities carried by NRW.BANK comply with the requirements of Article 63 of the Capital Requirements Regulation (CRR).

### Equity Capital (21)

As of December 31, 2017, NRW.BANK's subscribed capital remained unchanged at € 17,000.0 million. The reserves totalled € 983.2 million (2016: € 982.5 million).

NRW.BANK's capital and reserves as reported on the balance sheet are made up of the following:

Commercial law equity	Dec. 31, 2017	Dec. 31, 2016
	€ millions	€ millions
Subscribed capital	17,000.0	17,000.0
Capital reserves	727.5	726.8
Reserves from retained earnings		
– reserves required by NRW.BANK's Statutes	36.1	36.1
– other reserves	219.6	219.6
Profit for the year	0.0	0.0
<b>Total equity capital</b>	<b>17,983.2</b>	<b>17,982.5</b>

Once the annual accounts are approved, the capital of NRW.BANK required for regulatory purposes under Section 10 of the German Banking Act (Kreditwesengesetz – KWG) will total € 20,091.7 million (2016: € 20,112.5 million).

### Foreign Currency Assets and Foreign Currency Liabilities (22)

At the reporting date, NRW.BANK had foreign currency assets valued at € 8,839.2 million (2016: € 9,907.1 million) and foreign currency liabilities valued at € 37,405.8 million (2016: € 34,809.8 million). Contingent liabilities and other commitments denominated in foreign currencies totalled € 8,267.8 million (2016: € 7,229.6 million).

### Contingent Liabilities (23)

Contingent liabilities totalled € 14,206.9 million (2016: € 15,529.7 million) and incorporate € 13,372.8 million (2016: € 14,741.6 million) for credit derivatives (thereof € 0.0 million for embedded derivatives [2016: € 250.0 million]) and € 834.1 million (2016: € 788.1 million) for other guarantees and indemnity agreements.

The credit derivatives are credit default swaps, in which NRW.BANK acts as protection seller. Against receipt of a premium from the protection buyer, NRW.BANK has taken the risk that a credit event agreed between the two parties with regard to the reference debtor occurs. The credit default swaps of NRW.BANK are primarily referenced to countries and are almost exclusively of very good and good investment grade quality. No claims are expected to be raised at present.

The other guarantees and indemnity agreements primarily comprise liability releases in favour of house banks for loans granted in the context of various promotional programmes as well as global guarantees, guarantee lines and risk sub-participations held to reduce the risk of SME financing. Claims under these guarantees would potentially be raised in the event of the non-fulfilment of contractual obligations of the main borrower towards the beneficiary. This would arise, for instance, in the event of the delayed (or non-)repayment of loans or the improper completion of promised services. NRW.BANK considers the overall risk of future claims being raised because of such non-fulfilment by the main borrower to be low. In those cases where claims are likely to be raised, adequate provisions have been established.

**Other Commitments (24)**

Other commitments comprise irrevocable loan commitments in an amount of € 4,705.8 million (2016: € 4,375.4 million). Of this total, € 1,217.5 million (2016: € 1,185.1 million) relate to commitments of the Housing Promotion business unit.

The irrevocable loan commitments result from transactions in which NRW.BANK has made a binding commitment towards its customers and is therefore exposed to a future credit risk. Based on historical experience from the previous years, it is expected that the irrevocable loan commitments will be utilised with a probability of almost 100%.

**Assets Used as Collateral (25)**

Receivables in the nominal amount of € 667.8 million (2016: € 204.3 million) were assigned as collateral for liabilities to banks.

Bonds and notes in a nominal amount of € 4,823.4 million (2016: € 5,678.1 million) were pledged to the Deutsche Bundesbank as well as registered securities and notes in a nominal amount of € 19,090.1 million (2016: € 11,931.2 million) were submitted to the Deutsche Bundesbank in the context of the process "Kreditforderungen – Einreichung und Verwaltung" (KEV) (credit claims – submission and administration) as collateral for funding facilities.

Securities in a nominal amount of € 21.4 million (2016: € 24.5 million) were deposited for the Eurex (electronic futures and options exchange) as collateral for forward transactions. In addition, securities in an amount of € 152.9 million (2016: € 243.5 million) were submitted as collateral to compensate for exchange rate fluctuations in Eurex repurchase agreements. In addition, securities in a nominal amount of € 323.1 million (2016: € 2,929.5 million) were transferred to secure off-exchange derivatives and were deposited as collateral with the counterparty.

As in the previous year, securities in a nominal amount of € 4.0 million were assigned as rent deposit for an existing rental agreement.

## Cover (26)

All issues of NRW.BANK requiring cover were covered in accordance with the statutory provisions and in accordance with the Bank's Statutes.

On December 31, 2017, the nominal amounts of the cover are as follows:

Cover	Dec. 31, 2017	Dec. 31, 2016
	Municipal bonds (cover register II) € millions	Municipal bonds (cover register II) € millions
Municipal bonds issued	1,677.0	1,735.3
<b>Liabilities requiring cover</b>	<b>1,677.0</b>	<b>1,735.3</b>
Municipal loans	3,208.3	3,586.8
Excess cover	66.1	66.1
<b>Cover funds</b>	<b>3,274.4</b>	<b>3,652.9</b>
<b>Excess cover</b>	<b>1,597.4</b>	<b>1,917.6</b>

The cover only includes the cover register for municipal bonds (cover register II), as NRW.BANK currently holds no mortgage bonds (cover register I) and currently does not issue new mortgage bonds.

## Income Statement

### Services Rendered for Third Parties (27)

The net commission income includes € 8.0 million (2016: € 9.7 million) from the trust and administered activities.

### Other Operating Income and Expenses (28)

The principal contributions towards other operating income are composed of € 34.5 million (2016: € 17.5 million) in income from the write-back of provisions as well as € 9.1 million (2016: € 8.6 million) in income from the reimbursement of the service cost from Portigon AG.

The principal contributions towards other operating expenses are composed of € 123.7 million (2016: € 69.9 million) in interest effects from the valuation of pension, benefit and other personnel provisions, € 19.6 million (2016: € 6.5 million) for allocations to pension and benefit provisions for employees of Portigon AG who have claims for or are entitled to a pension under the laws relating to civil servants as well as € 13.6 million (2016: € 14.2 million) in expenses for the EU bank levy.

### Fee Paid to Auditor of the Annual Accounts (29)

In the fiscal year 2017, the auditor charged a total fee of € 1.2 million (2016: € 1.2 million). € 1.1 million (2016: € 1.2 million) of which accounted for the auditing of the annual accounts, € 0.1 million (2016: € 0.0 million) for other auditing services.

## Miscellaneous

### Other Financial Obligations

NRW.BANK has long-term obligations in the amount of € 59.5 million (2016: € 73.3 million) up to the end of the contractual term. Thereof obligations in the amount of € 22.0 million relate to the fiscal year 2018. The remaining other financial obligations in the amount of € 37.5 million relate to the fiscal years 2019 to 2026. In addition, there are other annual financial obligations with an indefinite remaining term after the balance sheet date in the amount of € 2.0 million (2016: € 1.9 million).

These other financial obligations primarily result from rental, maintenance and IT service agreements.

In the context of the EU bank levy, there is another financial obligation in the amount of the irrevocable payment obligation of € 6.1 million. The cash collateral paid in the same amount is included in the balance sheet item "Other assets".

### Other Obligations (30)

NRW.BANK has other obligations pursuant to Article 1 Section 3 Sentence 1 of the Bank Redefining Act of July 2, 2002.

In addition to its capital contribution of € 55.0 million, NRW.BANK remains liable for Investitionsbank des Landes Brandenburg (ILB) in the amount of an additional € 110.0 million.

As in the previous year, there is an obligation to make additional contributions in the amount of € 16.0 million to the European Investment Fund (EIF).

Both the liability assumed for Investitionsbank des Landes Brandenburg (ILB) and the obligation to make additional contributions to the European Investment Fund (EIF) are included in other guarantees and indemnity agreements shown under the balance sheet item "Contingent liabilities".

## Derivative Transactions

As of December 31, 2017, the total nominal value of the derivative transactions is € 190,175 million (2016: € 180,173 million).

Derivative transactions are mostly used as hedges against fluctuations in interest rates, exchange rates and market prices and almost entirely relate to the banking book.

Banking book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2017
	€ millions	€ millions	€ millions	€ millions
<b>Interest rate derivatives</b>				
Interest rate swaps	136,506	141,226	6,900	-9,045
Interest rate options				
– bought (long)	4,331	4,361	77	0
– written (short)	4,903	4,735	0	-42
Stock market contracts				
– bought (long)	–	–	–	–
– written (short)	30	–	–	–
Other interest rate forwards	322	422	7	-18
<b>Total interest rate derivatives</b>	<b>146,092</b>	<b>150,744</b>	<b>6,984</b>	<b>-9,105</b>
<b>Currency derivatives</b>				
Foreign exchange forwards, swaps	13,783	20,206	17	-234
Currency swaps/ interest rate currency swaps	20,234	18,918	667	-1,328
<b>Total currency derivatives</b>	<b>34,017</b>	<b>39,124</b>	<b>684</b>	<b>-1,562</b>
<b>Total banking book</b>	<b>180,109</b>	<b>189,868</b>	<b>7,668</b>	<b>-10,667</b>

Trading book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2017
	€ millions	€ millions	€ millions	€ millions
<b>Interest rate derivatives</b>				
Interest rate swaps	50	–	–	–
Stock market contracts				
– bought (long)	5	8	0	0
– written (short)	9	4	0	0
<b>Total interest rate derivatives</b>	<b>64</b>	<b>12</b>	<b>0</b>	<b>0</b>
<b>Currency derivatives</b>				
Currency swaps/ interest rate currency swaps	–	295	1	0
<b>Total currency derivatives</b>	<b>–</b>	<b>295</b>	<b>1</b>	<b>0</b>
<b>Total trading book</b>	<b>64</b>	<b>307</b>	<b>1</b>	<b>0</b>

Banking book and trading book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2017
	€ millions	€ millions	€ millions	€ millions
Total interest rate derivatives	146,156	150,756	6,984	-9,105
Total currency derivatives	34,017	39,419	685	-1,562
<b>Total banking book and trading book</b>	<b>180,173</b>	<b>190,175</b>	<b>7,669</b>	<b>-10,667</b>

The presentation of derivative transactions also reflects embedded derivative instruments that have to be separated of a nominal value of € 4,944 million (2016: € 4,808 million).

The average nominal value of the derivative transactions and other forward transactions entered into by NRW.BANK for the period from January 1, 2017 to December 31, 2017 was € 186,583 million (2016: € 184,760 million).

The market values of the derivative transactions are shown without accrued interest.

To the extent available, stock exchange or market prices are used for valuing the derivative financial instruments. If stock exchange or market values are not available or cannot be reliably determined, the fair value is determined on the basis of standard pricing models or discounted cash flows.

Option premiums paid/received are reported under the balance sheet items "Other assets" and "Other liabilities"; prepaid swap fees and swap fees received in advance are included in the respective deferred item.

The breakdown of derivative transactions by counterparty is as follows:

Banking book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2017
	€ millions	€ millions	€ millions	€ millions
OECD banks	164,767	176,221	6,606	-8,983
OECD public-sector entities	7,957	6,686	932	-1,421
Other counterparties	7,385	6,961	130	-263
<b>Total banking book</b>	<b>180,109</b>	<b>189,868</b>	<b>7,668</b>	<b>-10,667</b>

Trading book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2017
	€ millions	€ millions	€ millions	€ millions
OECD banks	59	307	1	0
Other counterparties	5	-	-	-
<b>Total trading book</b>	<b>64</b>	<b>307</b>	<b>1</b>	<b>0</b>

Banking book and trading book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2017
	€ millions	€ millions	€ millions	€ millions
<b>Total banking book and trading book</b>	<b>180,173</b>	<b>190,175</b>	<b>7,669</b>	<b>-10,667</b>

Interest rate derivatives that are not assigned to the trading book are used as microhedges for specific transactions or as macrohedges for overall exposure, exclusively in the Bank's proprietary business. Their result is recognised in net interest income.

The interest rate contracts are spread across the entire spectrum of maturities, with approx. 47% (2016: € 47%) of the interest rate contracts having a remaining time to maturity of more than five years.

Banking book	Interest rate derivatives		Currency derivatives	
	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017
	€ millions	€ millions	€ millions	€ millions
Residual maturity				
– up to 3 months	7,725	4,966	15,415	15,386
– more than 3 months to 1 year	13,163	17,468	3,747	10,295
– more than 1 to 5 years	56,141	57,305	12,499	11,134
– more than 5 years	69,063	71,005	2,356	2,309
<b>Total banking book</b>	<b>146,092</b>	<b>150,744</b>	<b>34,017</b>	<b>39,124</b>

Trading book	Interest rate derivatives		Currency derivatives	
	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017
	€ millions	€ millions	€ millions	€ millions
Residual maturity				
– up to 3 months	64	12	–	295
<b>Total trading book</b>	<b>64</b>	<b>12</b>	<b>–</b>	<b>295</b>

Banking book and trading book	Interest rate derivatives		Currency derivatives	
	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017
	€ millions	€ millions	€ millions	€ millions
<b>Total banking book and trading book</b>	<b>146,156</b>	<b>150,756</b>	<b>34,017</b>	<b>39,419</b>

## Number of Employees

### Employees on an annual average\*

	2017			2016		
	Women	Men	Total	Women	Men	Total
Full-time employees	359	552	911	381	564	945
Part-time employees	336	92	428	316	65	381
<b>Total employees on an annual average</b>	<b>695</b>	<b>644</b>	<b>1,339</b>	<b>697</b>	<b>629</b>	<b>1,326</b>

\* Excl. Managing Board, trainees, apprentices, interns and employees on parental leave and similar leave.

### Active employees as at Dec. 31

	2017			2016		
	Women	Men	Total	Women	Men	Total
Full-time employees	355	553	908	380	568	948
thereof employees under limited employment contracts	8	15	23	11	15	26
Part-time employees	346	94	440	316	67	383
thereof employees under limited employment contracts	6	4	10	4	4	8
<b>Total active employees as at Dec. 31</b>	<b>701</b>	<b>647</b>	<b>1,348</b>	<b>696</b>	<b>635</b>	<b>1,331</b>
In addition as at Dec. 31						
Managing Board	1	3	4	1	3	4
Apprentices and trainees	18	29	47	16	21	37
Employees employed outside of NRW.BANK (leave, secondments, employee assignments)	9	18	27	9	16	25

### Managing Board Remuneration (31)

Non-performance-linked and performance-linked components of the Managing Board remuneration as well as the remuneration for mandates received by the Managing Board members in 2017 and 2016:

	Non-performance-linked remuneration						Performance-linked variable remuneration		Total remuneration		Remuneration for mandates <sup>1)</sup>	
	Fixed remuneration		Other remuneration		Company pension scheme		2017	2016	2017	2016	2017	2016
	2017	2016	2017 <sup>2)</sup>	2016	2017 <sup>2)</sup>	2016						
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	
Eckhard Forst <sup>3)</sup>	600.0	100.0	36.5	23.9	107.7	–	175.0	0.0	919.2	123.9	26.2	3.1
Klaus Neuhaus <sup>4)</sup>	0.0	500.0	0.0	27.3	0.0	–	0.0	132.5	0.0	659.8	0.0	8.9
Gabriela Pantring <sup>3)</sup>	410.0	68.3	23.5	1.7	82.1	–	20.0	0.0	535.6	70.0	0.0	0.1
Michael Stölting	469.4	465.0	37.0	32.6	382.7	–	138.0	128.7	1,027.1	626.3	72.9	61.8
Dietrich Suhlrie	477.8	477.8	28.4	14.6	405.6	–	138.0	128.7	1,049.8	621.1	2.2	2.0
<b>Total Managing Board</b>	<b>1,957.2</b>	<b>1,611.1</b>	<b>125.4</b>	<b>100.1</b>	<b>978.1</b>	<b>–</b>	<b>471.0</b>	<b>389.9</b>	<b>3,531.7</b>	<b>2,101.1</b>	<b>101.3</b>	<b>75.9</b>

<sup>1)</sup> Amounts incl. VAT, where applicable.

<sup>2)</sup> Amounts for 2017 pursuant to the amended InstitutsVergV dated July 25, 2017 incl. remuneration components granted because of company-wide or collectively agreed regulations, employer contributions to statutory social insurance, other benefit payments as well as allocations to the company pension scheme incl. interest expenses.

<sup>3)</sup> In 2016 pro-rated remuneration from the entry on November 1, 2016.

<sup>4)</sup> In 2016 pro-rated remuneration up to the departure on October 31, 2016.

Breakdown of the variable Managing Board remuneration granted in 2017 into components paid-out immediately and components retained over several years:

	Variable remuneration for the year 2016, granted in 2017	Thereof retained	Thereof paid out in 2017	Thereof committed in 2017 but not paid out because of sustainability arrangement	Reduction pursuant to Section 20 Para. 5 InstitutsVergV
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Eckhard Forst <sup>1)</sup>	175.0	0.0	175.0	0.0	0.0
Gabriela Pantring	20.0	12.0	4.0	4.0	0.0
Michael Stölting	138.0	82.8	27.6	27.6	0.0
Dietrich Suhlrie	138.0	82.8	27.6	27.6	0.0
<b>Total Managing Board</b>	<b>471.0</b>	<b>177.6</b>	<b>234.2</b>	<b>59.2</b>	<b>0.0</b>

<sup>1)</sup> Guaranteed variable remuneration pursuant to Section 5 Para. 5 InstitutsVergV.

Commitments in case of premature or regular termination of the activity:

In case of a premature resignation not attributable to an extraordinary termination for serious cause, the members of the Managing Board will receive the agreed remuneration until the end of their contractual term. For Mr Forst and Ms Pantring, this payment is capped at an amount equivalent to the remuneration for a maximum of two years. Thereafter, Mr Stölting and Mr Suhlrie will receive an early pension based on the pension that would be paid in case of invalidity until they reach the age of retirement. If the contract of Mr Forst is not renewed and this is not his fault and he is still able to work, he may apply for early retirement benefits after having reached the age of 62, whose payment will end once he receives his statutory pension but no later than after having reached the age of 66 years plus two months.

The members of the Managing Board are entitled to pension benefits as they reach the age of retirement or in case of invalidity. In the event of their death their dependants are also entitled to benefits. All commitments are contractually unforfeitable or unforfeitable by law because of the number of years served. As a result of his previous employment, Mr Stölting has an entitlement to a civil-service-type pension taking into account entitlements from the public pension scheme as well as entitlements under a pension enhancement policy. Mr Forst, Ms Pantring and Mr Suhlrie benefit from a contribution-linked pension commitment. In the context of this pension commitment, a personal pension account with a starting component has been set up for them, into which annual pension components are paid.

In the fiscal year 2017, there were no changes in the commitments for old-age/invalidity and dependants' pension for any Managing Board member.

Expenses and present values of the benefits promised to the members of the Managing Board in case of regular termination of their activity:

	Expenses <sup>1)</sup>		Present value of the obligation	
	2017	2016	2017	2016
	€ thousands	€ thousands	€ thousands	€ thousands
Eckhard Forst	107.7	31.5	139.2	31.5
Gabriela Pantring	82.1	20.1	102.2	20.1
Michael Stölting	382.7	48.0	3,718.3	3,335.6
Dietrich Suhlrie	405.6	179.9	1,915.5	1,509.9
<b>Total Managing Board</b>	<b>978.1</b>	<b>279.5</b>	<b>5,875.2</b>	<b>4,897.1</b>

<sup>1)</sup> The expenses shown here comprise personnel and interest expenses. The higher expenses compared to the previous year are mainly attributable to the decrease in the discount rate from 4.01% as at December 31, 2016 to 3.68% as at December 31, 2017.

Payments to retired and resigned Managing Board members and present values of their retirement benefits:

	Payments from active employment <sup>1)</sup>		Payments from pension claims		Present value of the obligation	
	2017	2016	2017	2016	2017	2016
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Former Managing Board members	124.3	109.1	899.1	631.9	27,166.8	26,015.8

<sup>1)</sup> Mainly remuneration components from the previous fiscal year and/or retained portions of the previous years paid in the respective year.

## Remuneration of the Members of the Board of Guarantors, the Supervisory Board and Its Committees as well as the Advisory Board (32)

The tables below show the remuneration of the members of the Board of Guarantors, the Supervisory Board and its Committees as well as the Advisory Board in itemised form. The remuneration of the members of the Supervisory Board varies depending on their committee membership.

### Disclosure of the Remuneration Paid to Members of the Board of Guarantors

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 8 Para. 1 Letters a to c of the Statutes</b>		<b>Members Pursuant to Section 8 Para. 1 Letter d of the Statutes</b>	
Garrelt Duin (until Jun. 30, 2017) Chairman Minister for Economic Affairs, Energy and Industry of the State of North Rhine-Westphalia	2,800	Martina Hoffmann-Badache (until Aug. 15, 2017) State Secretary Ministry of Health, Equalities, Care and Ageing of the State of North Rhine-Westphalia	3,633
Prof. Dr. Andreas Pinkwart (since Jun. 30, 2017) Chairman (since Aug. 9, 2017) Minister for Economic Affairs, Innovation, Digitalization and Energy of the State of North Rhine-Westphalia	3,217	Franz-Josef Lersch-Mense (until Aug. 15, 2017) Minister for Federal Affairs, Europe and Media as well as Head of the State Chancellery of the State of North Rhine-Westphalia	3,633
Dr. Norbert Walter-Borjans (until Jun. 30, 2017) Deputy Chairman Minister of Finance of the State of North Rhine-Westphalia	2,500	Nathanael Liminski (since Aug. 24, 2017) State Secretary as well as Head of the State Chancellery of the State of North Rhine-Westphalia	2,383
Lutz Lienenkämper, MdL (since Jun. 30, 2017) Deputy Chairman (since Aug. 9, 2017) Minister of Finance of the State of North Rhine-Westphalia	3,217	Mathias Richter (since Aug. 24, 2017) State Secretary Ministry for School and Further Education of the State of North Rhine-Westphalia	2,383
Michael Groschek (until Jun. 30, 2017) Deputy Chairman Minister for Building, Housing, City Development and Transport of the State of North Rhine-Westphalia	2,800	<b>Permanent Guests</b>	
Ina Scharrenbach (since Jun. 30, 2017) Deputy Chairwoman (since Aug. 9, 2017) Minister of Home Affairs, Municipal Affairs, Construction and Equality of the State of North Rhine-Westphalia	2,917	Martin Bösenberg Staff representative NRW.BANK	600
		Frank Lill Staff representative NRW.BANK	600

1. On the basis of the rules adopted by the Board of Guarantors, turnover tax and travel expenses are refunded by the Bank upon request.
2. The labour remuneration for members who join or leave the Board of Guarantors during the year is paid on a pro-rata temporis basis for each calendar month.
3. Potential duties of payment of the mandate holders and/or payments made are not taken into account.

## Disclosure of the Remuneration Paid to Members of the Supervisory Board and Its Committees

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 12 Para. 1 Letters a to c of the Statutes</b>		<b>Permanent Representatives Pursuant to Section 12 Para. 2 of the Statutes</b>	
Garrelt Duin (until Jun. 30, 2017) Chairman Minister for Economic Affairs, Energy and Industry of the State of North Rhine-Westphalia	12,200	Wulf Noll (until Jun. 30, 2017) / (since Aug. 25, 2017) / (until Sep. 30, 2017) Assistant Secretary Ministry for Economic Affairs, Innovation, Digitalization and Energy of the State of North Rhine-Westphalia	14,633
Prof. Dr. Andreas Pinkwart (since Jun. 30, 2017) Chairman (since Aug. 9, 2017) Minister for Economic Affairs, Innovation, Digitalization and Energy of the State of North Rhine-Westphalia	13,250	Gerhard Heilgenberg (until Jun. 30, 2017) / (since Aug. 9, 2017) Assistant Secretary Ministry of Finance of the State of North Rhine-Westphalia	24,967
Dr. Norbert Walter-Borjans (until Jun. 30, 2017) Deputy Chairman Minister of Finance of the State of North Rhine-Westphalia	13,800	Annett Fischer (until Jun. 30, 2017) Assistant Secretary Ministry of Building, Housing, Urban Development and Transport of the State of North Rhine-Westphalia	7,800
Lutz Lienenkämper, MdL (since Jun. 30, 2017) Deputy Chairman (since Aug. 9, 2017) Minister of Finance of the State of North Rhine-Westphalia	16,050	Karl-Heinz Kolenbrander (since Sep. 4, 2017) / (until Dec. 31, 2017) Under Secretary Ministry of Home Affairs, Municipal Affairs, Construction and Equality of the State of North Rhine-Westphalia	9,133
Michael Groschek (until Jun. 30, 2017) Deputy Chairman Minister for Building, Housing, City Development and Transport of the State of North Rhine-Westphalia	8,200		
Ina Scharrenbach (since Jun. 30, 2017) Deputy Chairwoman (since Aug. 9, 2017) Minister of Home Affairs, Municipal Affairs, Construction and Equality of the State of North Rhine-Westphalia	15,750		

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 12 Para. 1 Letter d of the Statutes</b>		<b>Members Pursuant to Section 12 Para. 1 Letter e of the Statutes</b>	
Horst Becker, MdL (until Aug. 8, 2017) Parliamentary State Secretary Ministry for Climate Protection, Environment, Agriculture, Conservation and Consumer Affairs of the State of North Rhine-Westphalia	3,633	Iris Aichinger Staff representative NRW.BANK	16,450
Ute Gerbaulet General Partner Bankhaus Lampe KG	17,700	Martin Bösenberg Staff representative NRW.BANK	17,700
Bernd Krückel, MdL Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	17,100	Matthias Elzinga Staff representative NRW.BANK	18,300
Isabel Pfeiffer-Poensgen (since Aug. 24, 2017) Minister for Culture and Science of the State of North Rhine-Westphalia	5,367	Frank Lill Staff representative NRW.BANK	20,950
Johannes Remmel (until Aug. 8, 2017) Minister for Climate Protection, Environment, Agriculture, Conservation and Consumer Affairs of the State of North Rhine-Westphalia (until Jun. 30, 2017)	11,500	Thomas Stausberg Director NRW.BANK	21,800
Norbert Römer, MdL Chairman of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	18,600		
Dr. Birgit Roos Chairwoman of the Managing Board Sparkasse Krefeld	21,200		
Svenja Schulze, MdL (until Aug. 8, 2017) Minister for Innovation, Science and Research of the State of North Rhine-Westphalia (until Jun. 30, 2017)	11,500		
Christina Schulze Föcking (since Aug. 24, 2017) Ministry for Environment, Agriculture, Conservation and Consumer Affairs of the State of North Rhine-Westphalia	4,767		
Dirk Wedel (since Aug. 24, 2017) State Secretary Ministry of Justice of the State of North Rhine-Westphalia	2,683		

1. On the basis of the rules adopted by the Board of Guarantors, turnover tax and travel expenses are refunded by the Bank upon request.
2. The labour remuneration for members who join or leave the Supervisory Board or its Committees during the year is paid on a pro-rata temporis basis for each calendar month.
3. Potential duties of payment of the mandate holders and/or payments made are not taken into account.

## Disclosure of the Remuneration Paid to Members of the Advisory Board for Housing Promotion of NRW.BANK

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 23 Para. 1 Letter a of the Statutes</b>		<b>Members Pursuant to Section 23 Para. 1 Letter c of the Statutes</b>	
Michael Groschek (until May 31, 2017) Chairman Minister for Building, Housing, City Development and Transport of the State of North Rhine-Westphalia	1,550	Dieter Hilser, MdL (until May 31, 2017) Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	1,550
Ina Scharrenbach (since Jun. 30, 2017) Chairwoman Minister of Home Affairs, Municipal Affairs, Construction and Equality of the State of North Rhine-Westphalia	2,050	Gerda Kieninger, MdL (until May 31, 2017) Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	1,550
<b>Members Pursuant to Section 23 Para. 1 Letter b of the Statutes</b>		Arndt Klocke, MdL (until May 31, 2017) / (since Sep. 13, 2017) Member of the Bündnis 90/Die Grünen Parliamentary Group State Assembly of North Rhine-Westphalia	2,850
Günther Bongartz (until May 31, 2017) / (since Aug. 10, 2017) Assistant Secretary Ministry of Finance of the State of North Rhine-Westphalia	3,100	Stephen Paul, MdL (since Sep. 13, 2017) Member of the FDP Parliamentary Group State Assembly of North Rhine-Westphalia	1,300
Dr. Michael Henze (until May 31, 2017) / (since Jul. 21, 2017) Assistant Secretary Ministry for Economic Affairs, Innovation, Digitalization and Energy of the State of North Rhine-Westphalia	3,050	Sarah Philipp, MdL (since Sep. 13, 2017) Deputy Chairwoman of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	1,300
Hans Lauf (until May 31, 2017) / (since Jul. 25, 2017) / (until Feb. 4, 2018) Assistant Secretary Ministry of Work, Welfare and Social Integration of the State of North Rhine-Westphalia	3,350	Bernhard Schemmer, MdL (until May 31, 2017) Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	1,550
<b>Members Pursuant to Section 23 Para. 1 Letter c of the Statutes</b>		Fabian Schruppf, MdL (since Sep. 13, 2017) Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	1,300
Roger Beckamp, MdL (since Sep. 13, 2017) Member of the AfD Parliamentary Group State Assembly of North Rhine-Westphalia	1,300	Daniel Sieveke, MdL (since Sep. 13, 2017) Deputy Chairman of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	1,300
Andreas Becker, MdL (since Sep. 13, 2017) Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	1,300	Eva-Maria Voigt-Küppers, MdL (until May 31, 2017) Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	1,550
Martin Börschel, MdL (until May 31, 2017) / (since Sep. 13, 2017) Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	2,550	Klaus Voussem, MdL (until May 31, 2017) / (since Sep. 13, 2017) Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	2,850
Holger Ellerbrock, MdL (until May 31, 2017) Member of the FDP Parliamentary Group State Assembly of North Rhine-Westphalia	1,550	Olaf Wegner, MdL (until May 31, 2017) Member of the Piraten Parliamentary Group State Assembly of North Rhine-Westphalia	1,550

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 23 Para. 1 Letter d of the Statutes</b>		<b>Member Pursuant to Section 23 Para. 1 Letter f of the Statutes</b>	
Erik Amaya (until May 31, 2017) / (since Oct. 6, 2017) Managing Director Haus & Grund NRW e.V.	2,600	Hans-Jochem Witzke (until May 31, 2017) / (since Oct. 6, 2017) 1st Chairman of the Managing Board Deutscher Mieterbund Nordrhein-Westfalen e.V.	2,600
Elisabeth Gendziorra, lawyer (since Oct. 6, 2017) Managing Director BFW Landesverband Nordrhein-Westfalen e.V.	750	<b>Member Pursuant to Section 23 Para. 1 Letter g of the Statutes</b>	
Dr. Werner Küpper (until May 31, 2017) BFW Landesverband Nordrhein-Westfalen e.V.	1,550	Dipl.-Ing. Ernst Uhing (until May 31, 2017) / (since Oct. 6, 2017) President Architektenkammer Nordrhein-Westfalen	2,600
Alexander Rychter (until May 31, 2017) / (since Oct. 6, 2017) Association Director Verband der Wohnungs- und Immobilienwirtschaft Rheinland Westfalen e.V.	2,600	<b>Permanent Representative of the Chairing Member Pursuant to Section 23 Para. 2 of the Statutes</b>	
<b>Members Pursuant to Section 23 Para. 1 Letter e of the Statutes</b>		Sigrid Koeppinghoff (until May 31, 2017) / (since Oct. 6, 2017) Assistant Secretary Ministry of Home Affairs, Municipal Affairs, Construction and Equality of the State of North Rhine-Westphalia	2,600
Rudolf Graaff (until May 31, 2017) / (since Oct. 6, 2017) Deputy Mayor Städte- und Gemeindebund Nordrhein-Westfalen e.V.	2,600		
Thomas Hendele (until May 31, 2017) / (since Oct. 6, 2017) President Landkreistag Nordrhein-Westfalen	2,600		
Stefan Raetz (until May 31, 2017) / (since Oct. 6, 2017) Mayor City of Rheinbach	2,600		
Hilmar von Lojewski (until May 31, 2017) / (since Oct. 6, 2017) Deputy Mayor for Urban Development, Construction, Housing and Transport Städtetag Nordrhein-Westfalen	2,600		

1. On the basis of the rules adopted by the Board of Guarantors, turnover tax and travel expenses are refunded by the Bank upon request.
2. The labour remuneration for members who join or leave the Advisory Board for Housing Promotion during the year is paid on a pro-rata temporis basis for each calendar month.
3. Potential duties of payment of the mandate holders and/or payments made are not taken into account.

## Disclosure of the Remuneration Paid to Members of the Advisory Board of NRW.BANK

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 25 of the Statutes</b>		<b>Members Pursuant to Section 25 of the Statutes</b>	
Garrelt Duin (until Jun. 27, 2017) Chairman Minister for Economic Affairs, Energy and Industry of the State of North Rhine-Westphalia	1,300	Prof. Dr. Ursula Gather (until Jun. 27, 2017) Chairwoman of the Board of Trustees Alfried Krupp von Bohlen und Halbach-Stiftung	1,300
Michael Ackermann (until Jun. 27, 2017) Managing Director Klinikum Bielefeld gem. GmbH	1,000	Dieter Gebhard (until Jun. 27, 2017) Chairman Regional Assembly of Westphalia-Lippe	1,300
Frank Baranowski (until Jun. 27, 2017) Lord Mayor City of Gelsenkirchen	1,000	Dr. Rolf Gerlach (until Mar. 31, 2017) President Savings Banks and Giro Association of Westphalia-Lippe	500
Michael Breuer (until Jun. 27, 2017) President Savings Banks and Giro Association of the Rhineland	1,000	Thomas Hendele (until Jun. 27, 2017) President Landkreistag Nordrhein-Westfalen e. V.	1,000
Prof. Dr. Liane Buchholz (since Apr. 1, 2017) / (until Jun. 27, 2017) President Savings Banks and Giro Association of Westphalia-Lippe	800	Thomas Hunsteger-Petermann (until Jun. 27, 2017) Lord Mayor City of Hamm	1,000
Pit Clausen (until Jun. 27, 2017) Chairman of the Managing Board Städtetag Nordrhein-Westfalen	1,300	Ralf Kersting (until Jun. 27, 2017) President IHK NRW – Die Industrie- und Handelskammern in Nordrhein-Westfalen e. V.	0
Heinrich Otto Deichmann (until Jun. 27, 2017) Chairman of the Supervisory Board Deichmann SE	1,000	Dipl.-Wirtsch.-Ing. Arndt G. Kirchhoff (until Jun. 27, 2017) Managing Partner and CEO KIRCHHOFF Holding GmbH & Co. KG	1,000
Andreas Ehlert (until Jun. 27, 2017) President Chamber of Handicrafts Düsseldorf	1,300	Dipl.-Ing. Hanspeter Klein (until Jun. 27, 2017) Chairman of the Managing Board Verband Freier Berufe im Lande Nordrhein-Westfalen e. V.	1,300
Thomas Eiskirch (until Jun. 27, 2017) Lord Mayor City of Bochum	1,000	Prof. Dr. Reinhard Klenke (until Jun. 27, 2017) District President Münster Regional Government	1,000
Diana Ewert (until Jun. 27, 2017) District President Arnsberg Regional Government	1,000	Dr. Arne Kupke (until Jun. 27, 2017) Legal Vice President Evangelical Church of Westphalia	1,300
Andreas Feicht (until Jun. 27, 2017) Chairman of the Managing Board Verband kommunaler Unternehmen e. V. – Regional Group North Rhine-Westphalia –	1,000	Markus Lewe (until Jun. 27, 2017) Lord Mayor City of Münster	1,000
Dr. Reinhold Festge (until Jun. 27, 2017) Managing Partner HAVER & BOECKER OHG Drahtweberei und Maschinenfabrik	1,000	Matthias Löb (until Jun. 27, 2017) Director of LWL Regional Association of Westphalia-Lippe	1,000
Heinz Fiege (until Jun. 27, 2017) FIEGE Logistik Holding Stiftung & Co. KG	1,000	Ulrike Lubek (until Jun. 27, 2017) Director of LVR Regional Association of the Rhineland	1,000

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 25 of the Statutes</b>		<b>Members Pursuant to Section 25 of the Statutes</b>	
Wolfgang Lubert (until Jun. 27, 2017) Managing Director EnjoyVenture Management GmbH	1,300	Prof. Dr.-Ing. Gerhard Sagerer (until Jun. 27, 2017) Chairman Directors Conference of the Universities in North Rhine-Westphalia	1,000
Anne Lütkes (until Jun. 27, 2017) District President Düsseldorf Regional Government	1,300	Prof. Dr. Uwe Schneidewind (until Jun. 27, 2017) President and Academic Managing Director Wuppertal Institut für Klima, Umwelt, Energie gGmbH	1,000
Dr.-Ing. Hinrich Mählmann (until Jun. 27, 2017) Personally liable partner OTTO FUCHS KG	1,300	Frank Sportolari (until Jun. 27, 2017) District Manager UPS Deutschland Inc. & Co. OHG	1,300
Prof. Dr.-Ing. Wolfgang Marquardt (until Jun. 27, 2017) Chairman of the Board of Directors Forschungszentrum Jülich GmbH	1,300	Peter Terium (until Jun. 27, 2017) Chairman of the Managing Board innogy SE	1,000
Dr. Dominik Meiering (until Jun. 27, 2017) Apostolic Administrator of the Archbishop of Cologne Cologne Archbishopric	1,300	Marianne Thomann-Stahl (until Jun. 27, 2017) District President Detmold Regional Government	1,300
Andreas Meyer-Lauber (until Jun. 27, 2017) District Chairman Deutscher Gewerkschaftsbund NRW	1,000	Hans-Josef Vogel (until Jun. 27, 2017) District President Arnsberg Regional Government	1,300
Dr. Uli Paetzel (until Jun. 27, 2017) Chairman of the Managing Board EMSCHERGENOSSENSCHAFT und LIPPEVERBAND	1,300	Gisela Walsken (until Jun. 27, 2017) District President Cologne Regional Government	1,300
Dr. Paul-Josef Patt (until Jun. 27, 2017) Chairman of the Managing Board eCAPITAL entrepreneurial Partners AG	1,000	Prof. Dr. Jürgen Wilhelm (until Jun. 27, 2017) Chairman Regional Assembly of the Rhineland	1,000
Henriette Reker (until Jun. 27, 2017) Lord Mayor City of Cologne	1,000	Hans-Bernd Wolberg (until Jun. 27, 2017) Deputy Chief Executive Officer DZ BANK AG Deutsche Zentral-Genossenschaftsbank	1,300
Martin Renker (until Jun. 27, 2017) Chairman of the Managing Board Bankenverband Nordrhein-Westfalen e. V.	1,000	Matthias Zachert (until Jun. 27, 2017) Chairman of the Managing Board LANXESS AG	1,000
Dr. Eckhard Ruthemeyer (until Jun. 27, 2017) President Städte- und Gemeindebund Nordrhein-Westfalen e. V.	1,300		

1. On the basis of the rules adopted by the Board of Guarantors, turnover tax and travel expenses are refunded by the Bank upon request.
2. The labour remuneration for members who join or leave the Advisory Board during the year is paid on a pro-rata temporis basis for each calendar month.
3. Potential duties of payment of the mandate holders and/or payments made are not taken into account.

### Disclosure of the Remuneration Paid to Members of the Parliamentary Advisory Council of NRW.BANK

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 26 of the Statutes</b>		<b>Members Pursuant to Section 26 of the Statutes</b>	
Elisabeth Müller-Witt, MdL (until May 31, 2017) / (since Sep. 13, 2017) Chairwoman (until May 31, 2017) and Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	250	Christian Möbius, MdL (until May 31, 2017) Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	125
Dr. Marcus Optendrenk, MdL (until May 31, 2017) / (since Sep. 13, 2017) Chairman (since Nov. 6, 2017) and Deputy Chairman of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	250	Arne Moritz, MdL (since Sep. 13, 2017) Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	125
Mehrdad Mostofizadeh, MdL (until May 31, 2017) / (since Sep. 13, 2017) Deputy Chairman (until May 31, 2017) and Deputy Chairman of the Bündnis 90/Die Grünen Parliamentary Group State Assembly of North Rhine-Westphalia	250	Dr. Patricia Peill, MdL (since Sep. 13, 2017) Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	125
Ralf Witzel, MdL (until May 31, 2017) / (since Sep. 13, 2017) Deputy Chairman (since Nov. 6, 2017) and Deputy Chairman of the FDP Parliamentary Group State Assembly of North Rhine-Westphalia	250	Svenja Schulze, MdL (since Sep. 13, 2017) Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	0
Ralph Bombis, MdL (since Sep. 13, 2017) Member of the FDP Parliamentary Group State Assembly of North Rhine-Westphalia	125	Herbert Strotebeck, MdL (since Sep. 13, 2017) Member of the AfD Parliamentary Group State Assembly of North Rhine-Westphalia	125
Marc Herter, MdL (until May 31, 2017) / (since Sep. 13, 2017) Parliamentary Managing Director of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	125	Marco Voge, MdL (since Sep. 13, 2017) Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	125
Stefan Kämmerling, MdL (until May 31, 2017) / (since Sep. 13, 2017) Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	250	Hendrik Wüst, MdL (until May 31, 2017) Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	0
Nicolaus Kern, MdL (until May 31, 2017) Member of the Piraten Parliamentary Group State Assembly of North Rhine-Westphalia	0	Gudrun Zentis, MdL (until May 31, 2017) Member of the Bündnis 90/Die Grünen Parliamentary Group State Assembly of North Rhine-Westphalia	125
Gerda Kieninger, MdL (until May 31, 2017) Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	125	Stefan Zimkeit, MdL (until May 31, 2017) Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	0

1. On the basis of the rules adopted by the Board of Guarantors, turnover tax and travel expenses are refunded by the Bank upon request.
2. Potential duties of payment of the mandate holders and/or payments made are not taken into account.

### **Advances and Loans**

The loans to members of the Supervisory Board of NRW.BANK totalling € 34.5 thousand, which existed in the previous year and whose interest rates ranged from 4.93% to 5.15%, were repaid in full in the fiscal year 2017. No new advances or loans were granted.

### **Disclosure of Seats Held Pursuant to Section 340a Para. 4 No. 1 HGB**

#### **Seats Held by Members of the Managing Board**

**Eckhard Forst**

Portigon AG

**Michael Stölting**

Erste Abwicklungsanstalt

Investitionsbank des Landes Brandenburg (ILB)

**Dietrich Suhlrie**

Investitionsbank des Landes Brandenburg (ILB)

#### **Seats Held by Employees**

**Dr. Peter Güllmann**

Investitionsbank des Landes Brandenburg (ILB)

**Regine Bukowski-Knuppertz**

Investitionsbank des Landes Brandenburg (ILB)

**Guido Köcher**

Kettler GmbH

### Disclosure Pursuant to Section 26a Para. 1 Sentence 2 KWG in conjunction with Section 64r Para. 15 Sentence 1 KWG

NRW.BANK has dual head offices in Düsseldorf and Münster and has no branches performing banking activities outside the Federal Republic of Germany. All figures in the financial statements as defined in Section 26a Para. 1 Sentence 2 KWG therefore relate exclusively to the Federal Republic of Germany.

### Itemised List of NRW.BANK's Investments Pursuant to Section 285 No. 11 and 11a HGB

Name and head office of the company	Direct (D)/ Indirect (I)	Capital share in %	Equity in thousands	Net income/ Loss for the year in thousands	Currency	As at
<b>Equity investments in affiliated companies</b>						
Bremer Spielcasino GmbH & Co. KG, Bremen	D/I	51.00%	2,052	1,033	EUR	Dec. 31, 2016
Casino Duisburg GmbH & Co. KG, Duisburg	I	100.00%	10,000	9,395	EUR	Dec. 31, 2016
Nordwestlotto in Nordrhein-Westfalen GmbH, Münster	D	100.00%	156	0	EUR	Dec. 31, 2016
NRW.BANK.Fonds Beteiligungs-GmbH, Düsseldorf	D	100.00%	183	0	EUR	Dec. 31, 2016
NRW.BANK.Kreativwirtschaftsfonds GmbH & Co. KG, Düsseldorf	D	100.00%	6,161	-694	EUR	Dec. 31, 2016
NRW.BANK.Mittelstandsfonds GmbH & Co. KG, Düsseldorf	D	100.00%	46,722	8,098	EUR	Dec. 31, 2016
NRW.BANK.Mittelstandsfonds Zwei GmbH & Co. KG, Düsseldorf	D	100.00%	18,863	1,044	EUR	Dec. 31, 2016
NRW.BANK.Seed Fonds GmbH & Co. KG, Düsseldorf	D	100.00%	10,681	-915	EUR	Dec. 31, 2016
NRW.BANK.Seed Fonds Zwei GmbH & Co. KG, Düsseldorf	D	100.00%	4,562	-759	EUR	Dec. 31, 2016
NRW.BANK.Spezialfonds GmbH & Co. KG, Düsseldorf	D	100.00%	7,637	263	EUR	Dec. 31, 2016
NRW.BANK.Venture Fonds GmbH & Co. KG, Düsseldorf	D	100.00%	14,043	-41	EUR	Dec. 31, 2016
NRW.BANK.Venture Fonds Zwei GmbH & Co. KG, Düsseldorf	D	100.00%	28,096	-4,975	EUR	Dec. 31, 2016
Unterstützungseinrichtung GmbH der Westdeutsche Lotterie GmbH & Co. OHG, Münster	D/I	100.00%	26	-1,860	EUR	Dec. 31, 2016
Westdeutsche Lotterie GmbH & Co. OHG, Münster <sup>1)</sup>	D	100.00%	115,017	18,493	EUR	Dec. 31, 2016
Westdeutsche Lotto-VertriebsGmbH, Münster	I	100.00%	26	-2	EUR	Dec. 31, 2016
Westdeutsche Spielbanken GmbH, Duisburg	D	100.00%	26	0	EUR	Dec. 31, 2016
Westdeutsche Spielbanken GmbH & Co. KG, Duisburg	D/I	100.00%	75,362	-2,890	EUR	Dec. 31, 2016
Westdeutsche Spielcasino Service GmbH, Duisburg	D	100.00%	525	0	EUR	Dec. 31, 2016
WestEvent GmbH & Co. KG, Münster	D/I	100.00%	3,927	842	EUR	Dec. 31, 2016
WestSpiel Entertainment GmbH, Duisburg	I	100.00%	25	0	EUR	Dec. 31, 2016
<b>Equity investments in non-affiliated companies</b>						
abbino GmbH, Dortmund <sup>2)</sup>	I	35.15%				
Algix Pharmaceuticals GmbH, Erkrath	I	8.39%	312	-1,009	EUR	Dec. 31, 2016
Ampea Angewandte Messtechnik Prozessautomatisierung GmbH, Aachen	I	16.67%	6,730	2,196	EUR	Dec. 31, 2016
AplaGen GmbH, Baesweiler <sup>2)</sup>	I	26.21%				
Auctus III GmbH & Co. KG, Grünwald	D	4.35%	115,171	46,183	EUR	Dec. 31, 2016
AYOXXA Biosystems GmbH, Cologne	I	14.69%	-2,103	-5,013	EUR	Dec. 31, 2016
azeti Networks AG, Lünen	I	5.98%	-605	-3,064	EUR	Dec. 31, 2016
BE Beteiligungen GmbH & Co. KG, Cologne	D	4.08%	29,124	2,390	EUR	Dec. 31, 2016
BGB Ges. Bankenkonsortium ZENIT GmbH, Mülheim an der Ruhr	D	33.40%	2,990	245	EUR	Dec. 31, 2016

Name and head office of the company	Direct (D)/ Indirect (I)	Capital share in %	Equity in thou- sands	Net	Cur- rency	As at
				income/ Loss for the year in thou- sands		
BLSW Seedfonds GmbH & Co. KG, Wuppertal	I	42.67%	956	-425	EUR	Dec. 31, 2016
Bomedus GmbH, Bonn	I	22.80%	145	-1,082	EUR	Dec. 31, 2016
Bright Capital SME Debt Fund I GmbH & Co. KG, Frankfurt am Main <sup>3)</sup>	D	4.08%				
Bürgschaftsbank Brandenburg GmbH, Potsdam	D	19.85%	27,601	1,273	EUR	Dec. 31, 2016
Bürgschaftsbank NRW GmbH – Kreditgarantiegemeinschaft, Neuss	D	15.75%	34,158	1,114	EUR	Dec. 31, 2016
Capnamic United Venture Fund I GmbH & Co. KG, Cologne	D	7.69%	392	-1,439	EUR	Dec. 31, 2016
Capnamic Ventures Fund II GmbH & Co. KG, Cologne	D	4.35%	3,907	-266	EUR	Dec. 31, 2016
CellAct Pharma GmbH, Dortmund	I	38.56%	-35	-982	EUR	Dec. 31, 2015
CEVEC Pharmaceuticals GmbH, Cologne	I	21.15%	-167	-2,564	EUR	Dec. 31, 2016
Chronext AG, Zug	I	9.46%	2,353	-7,779	CHF	Dec. 31, 2016
CMP German Opportunity Investors Fund II SCA, Luxembourg	D	1.71%	97,023	-3,978	EUR	Dec. 31, 2016
CMP German Opportunity Investors Fund II SCS, Luxembourg	D	1.68%	111,251	-4,709	EUR	Dec. 31, 2016
CMP German Opportunity Investors Fund III SCSp, Luxembourg	D	1.92%	-47	-50	EUR	Dec. 31, 2016
Creathor Venture Fund IV SCS, Luxembourg	D	9.28%	3,870	-54	EUR	Dec. 31, 2016
CryoTherapeutics GmbH, Cologne	I	17.38%	804	-2,391	EUR	Dec. 31, 2016
DBAG Expansion Capital Fund GmbH & Co. KG, Frankfurt am Main	D	9.79%	41,148	1,411	EUR	Dec. 31, 2016
Deutsche Arzt AG, Essen	I	8.33%	60	-2,243	EUR	Dec. 31, 2016
DIREVO Industrial Biotechnology GmbH, Cologne	I	25.45%	1,458	-2,367	EUR	Dec. 31, 2016
Earlybird GmbH & Co. Beteiligungs KG 2011, Munich	D	3.33%	75,348	-27,195	EUR	Dec. 31, 2016
Earlybird Health Tech Fund GmbH & Co. Beteiligungs KG, Cologne	D	3.92%	3,665	-641	EUR	Dec. 31, 2016
ELS Fonds GmbH & Co. KG, Recklinghausen	I	32.30%	2,710	-188	EUR	Dec. 31, 2016
Europäischer Investitionsfonds (EIF), Luxembourg	D	0.44%	1,878,602	122,072	EUR	Dec. 31, 2016
femtos GmbH, Bochum	I	10.00%	214	-174	EUR	Dec. 31, 2016
Gardeur Beteiligungs GmbH, Mönchengladbach <sup>2)</sup>	I	49.00%				
GENUI Fund GmbH & Co. KG, Hamburg	D	1.72%	159,211	-8,284	EUR	Dec. 31, 2016
GreenPocket GmbH, Cologne	I	17.15%	109	-91	EUR	Dec. 31, 2016
Gründerfonds Bielefeld-Ostwestfalen GmbH & Co. KG, Münster	I	38.42%	7,926	1,016	EUR	Dec. 31, 2016
Gründerfonds Münsterland GmbH & Co. KG, Münster	I	37.81%	3,895	-71	EUR	Dec. 31, 2016
Gründerfonds Ruhr GmbH & Co. KG, Essen <sup>3)</sup>	D	49.00%				
Harbert European Growth Capital Fund I, London	D	1.67%	85,535	8,618	GBP	Dec. 31, 2016
Harbert European Growth Capital Fund II, London <sup>3)</sup>	D	2.38%				
HAVERKAMP GmbH, Münster	I	49.00%	523	13	EUR	Dec. 31, 2016
Hemovent GmbH, Aachen	I	20.18%	1,808	-1,123	EUR	Dec. 31, 2016
Ideenreich Invest GmbH, Cologne <sup>3)</sup>	I	50.00%				
INNOLUME GmbH, Dortmund	I	1.63%	-6,439	401	EUR	Dec. 31, 2015
Investitionsbank des Landes Brandenburg (ILB), Potsdam	D	50.00%	216,782	11,558	EUR	Dec. 31, 2016
IPF Fund I SCA, Luxembourg	D	1.19%	54,926	2,498	EUR	Dec. 31, 2016

Name and head office of the company	Direct (D)/ Indirect (I)	Capital share in %	Equity in thou- sands	Net income/ Loss for the year in thou- sands	Cur- rency	As at
JADO Technologies GmbH, Dresden <sup>2)</sup>	I	18.02%				
Kapitalbeteiligungsgesellschaft für die mittelständische Wirtschaft in NRW mbH, Neuss	D	49.63%	2,768	484	EUR	Dec. 31, 2016
LSI Pre-Seed-Fonds GmbH, Bonn	D	35.13%	10,766	-636	EUR	Dec. 31, 2016
Mapudo GmbH, Düsseldorf	I	21.12%	943	-722	EUR	Dec. 31, 2016
mimoOn GmbH, Duisburg <sup>2)</sup>	I	17.06%				
Novihum Technologies GmbH, Dresden	I	10.00%	3,436	-1,648	EUR	Dec. 31, 2016
NRW.International GmbH, Düsseldorf	D	33.33%	30	0	EUR	Dec. 31, 2016
Occlutech Holding AG, Schaffhausen	I	0.17%	7,621	-7,641	CHF	Jun. 30, 2016
Odewald KMU GmbH & Co. Beteiligungsgesellschaft für Vermögensanlagen KG, Berlin	D	7.32%	47,456	2,958	EUR	Dec. 31, 2016
Odewald KMU II GmbH & Co. Beteiligungsgesellschaft für Vermögensanlagen KG, Berlin	D	5.00%	28,892	-2,172	EUR	Dec. 31, 2016
ODS Oddset Deutschland Sportwetten GmbH, Munich	I	34.00%	-433	2,246	EUR	Dec. 31, 2016
Peppermint CBF 1 GmbH & Co. KG, Berlin	D	14.36%	12,806	-349	EUR	Dec. 31, 2016
Personal MedSystems GmbH, Berlin	I	5.68%	-2,208	-1,740	EUR	Dec. 31, 2016
Phenox GmbH, Bochum	I	27.61%	6,737	957	EUR	Dec. 31, 2015
Pinova GmbH & Co. Beteiligungs 2 KG, Munich	D	5.56%	30,207	-157	EUR	Dec. 31, 2016
Pinova GmbH & Co. Erste Beteiligungs KG, Munich	D	10.26%	51,947	14,301	EUR	Dec. 31, 2016
Portigon AG, Düsseldorf	D	30.51%	1,728,613	-169,509	EUR	Dec. 31, 2016
PRECIRE Technologies GmbH, Aachen	I	9.48%	530	-1,691	EUR	Dec. 31, 2016
Protagen AG, Dortmund	I	19.32%	-1,025	-3,065	EUR	Dec. 31, 2016
RDZ GmbH, Wiehl <sup>2)</sup>	I	21.94%				
Rheinland Venture Capital GmbH & Co. KG, Cologne	I	39.92%	2,521	-58	EUR	Jun. 30, 2017
RiverRock European Opportunities Feeder Fund II, London	D	1.03%	75,323	-2,902	EUR	Dec. 31, 2016
RiverRock European Opportunities Fund Ltd., London	D	1.49%	146,189	3,175	EUR	Dec. 31, 2016
saperatec GmbH, Bielefeld	I	23.76%	150	-1,075	EUR	Dec. 31, 2016
Schnöring GmbH, Schalksmühle	I	39.00%	1,507	-387	EUR	Dec. 31, 2016
Schnöring Immobilien GmbH & Co. KG, Schalksmühle	I	30.00%	10	67	EUR	Dec. 31, 2016
Scienion AG, Dortmund	D/I	45.60%	7,339	1,717	EUR	Dec. 31, 2016
SeedCapital Dortmund GmbH & Co. KG, Dortmund	I	46.51%	3,071	-3	EUR	Dec. 31, 2016
SeedCapital Dortmund II GmbH & Co. KG, Dortmund	I	47.62%	2,875	18	EUR	Dec. 31, 2016
Seed Fonds für die Region Aachen GmbH & Co. KG, Aachen	I	46.95%	2,326	-115	EUR	Dec. 31, 2016
Seed Fonds II für die Region Aachen GmbH & Co. KG, Aachen	I	46.96%	6,220	63	EUR	Dec. 31, 2016
Simfy AG, Berlin <sup>2)</sup>	I	1.93%				
Sirius Seedfonds Düsseldorf GmbH & Co. KG, Düsseldorf	I	44.61%	2,743	487	EUR	Dec. 31, 2016
Technologiefonds OWL GmbH & Co. KG, Paderborn <sup>3)</sup>	I	44.94%				
unu GmbH, Berlin	I	6.25%	3,658	-2,780	EUR	Dec. 31, 2016
VENTECH GmbH, Marl <sup>2)</sup>	I	19.98%				
Vimecon GmbH, Herzogenrath	I	14.64%	198	-1,687	EUR	Dec. 31, 2016
windtest grevenbroich gmbh, Grevenbroich	D	25.00%	1,156	257	EUR	Dec. 31, 2016

<sup>1)</sup> NRW.BANK is a personally liable shareholder of Westdeutsche Lotterie GmbH & Co. OHG, Münster.

<sup>2)</sup> The company did not prepare financial statements due to insolvency or liquidation.

<sup>3)</sup> As the company was newly established in the fiscal year 2017, no financial statements are prepared yet.

**Report on Post-Balance Sheet Date Events**

No events of special importance occurred after the end of the fiscal year.

**Resolution on the Appropriation of Profits (33)**

The Board of Guarantors of NRW.BANK has passed the following resolution on the appropriation of profits:

In accordance with Section 30 of the Statutes and to meet the statutory distribution requirements under Section 14 Para 1 NRW.BANK G, an amount of € 10,212,975.99 will be paid to the Federal Government for interest amounts that become due after December 31, 2017 and are to be paid by the State of North Rhine-Westphalia due to the utilisation of loans from the Federal Government for the promotion of housing construction and modernisation (subsidies pursuant to Article 104a Para. 4 of the German Constitution [Grundgesetz – GG] in the version effective until August 31, 2006).

## Executive Bodies of the Bank

### Board of Guarantors

Members Pursuant to Section 8 Para. 1  
Letters a to c of the Statutes

#### **Garrelt Duin** (until Jun. 30, 2017)

Chairman  
Minister for Economic Affairs,  
Energy and Industry  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Prof. Dr. Andreas Pinkwart** (since Jun. 30, 2017)

Chairman (since Aug. 9, 2017)  
Minister for Economic Affairs, Innovation,  
Digitalization and Energy  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Dr. Norbert Walter-Borjans** (until Jun. 30, 2017)

Deputy Chairman  
Minister of Finance  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Lutz Lienenkämper, MdL** (since Jun. 30, 2017)

Deputy Chairman (since Aug. 9, 2017)  
Minister of Finance  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Michael Groschek** (until Jun. 30, 2017)

Deputy Chairman  
Minister for Building, Housing,  
City Development and Transport  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Ina Scharrenbach** (since Jun. 30, 2017)

Deputy Chairwoman (since Aug. 9, 2017)  
Minister of Home Affairs, Municipal Affairs,  
Construction and Equality  
of the State of North Rhine-Westphalia  
Düsseldorf

Members Pursuant to Section 8 Para. 1  
Letter d of the Statutes

#### **Martina Hoffmann-Badache** (until Aug. 15, 2017)

State Secretary  
Ministry of Health, Equalities,  
Care and Ageing  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Franz-Josef Lersch-Mense** (until Aug. 15, 2017)

Minister for Federal Affairs,  
Europe and Media as well as  
Head of the State Chancellery  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Nathanael Liminski** (since Aug. 24, 2017)

State Secretary as well as  
Head of the State Chancellery  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Mathias Richter** (since Aug. 24, 2017)

State Secretary  
Ministry for School and Further Education  
of the State of North Rhine-Westphalia  
Düsseldorf

### Permanent guests

#### **Martin Bösenberg**

Staff representative  
NRW.BANK  
Münster

#### **Frank Lill**

Staff representative  
NRW.BANK  
Düsseldorf

## **Supervisory Board**

### **Members Pursuant to Section 12 Para. 1 Letters a to c of the Statutes**

#### **Garrelt Duin** (until Jun. 30, 2017)

Chairman  
Minister for Economic Affairs,  
Energy and Industry  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Prof. Dr. Andreas Pinkwart** (since Jun. 30, 2017)

Chairman (since Aug. 9, 2017)  
Minister for Economic Affairs, Innovation,  
Digitalization and Energy  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Dr. Norbert Walter-Borjans** (until Jun. 30, 2017)

Deputy Chairman  
Minister of Finance  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Lutz Lienenkämper, MdL** (since Jun. 30, 2017)

Deputy Chairman (since Aug. 9, 2017)  
Minister of Finance  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Michael Groschek** (until Jun. 30, 2017)

Deputy Chairman  
Minister for Building, Housing,  
City Development and Transport  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Ina Scharrenbach** (since Jun. 30, 2017)

Deputy Chairwoman (since Aug. 9, 2017)  
Minister of Home Affairs, Municipal Affairs,  
Construction and Equality  
of the State of North Rhine-Westphalia  
Düsseldorf

### **Members Pursuant to Section 12 Para. 1 Letter d of the Statutes**

#### **Horst Becker, MdL** (until Aug. 8, 2017)

Parliamentary State Secretary  
Ministry for Climate Protection, Environment,  
Agriculture, Conservation and Consumer Affairs  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Ute Gerbaulet**

General Partner  
Bankhaus Lampe KG  
Düsseldorf

#### **Bernd Krückel, MdL**

Member of the CDU Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

#### **Isabel Pfeiffer-Poensgen** (since Aug. 24, 2017)

Minister for Culture and Science  
of the State of North Rhine-Westphalia  
Düsseldorf

#### **Johannes Rimmel** (until Aug. 8, 2017)

Minister for Climate Protection, Environment,  
Agriculture, Conservation and Consumer Affairs  
of the State of North Rhine-Westphalia  
(until Jun. 30, 2017)  
Düsseldorf

#### **Norbert Römer, MdL**

Chairman of the SPD Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

#### **Dr. Birgit Roos**

Chairwoman of the Managing Board  
Sparkasse Krefeld  
Krefeld

#### **Svenja Schulze, MdL** (until Aug. 8, 2017)

Minister for Innovation, Science and Research  
of the State of North Rhine-Westphalia  
(until Jun. 30, 2017)  
Düsseldorf

**Christina Schulze Föcking** (since Aug. 24, 2017)

Ministry for Environment, Agriculture,  
Conservation and Consumer Affairs  
of the State of North Rhine-Westphalia  
Düsseldorf

**Dirk Wedel** (since Aug. 24, 2017)

State Secretary  
Ministry of Justice  
of the State of North Rhine-Westphalia  
Düsseldorf

**Members Pursuant to Section 12 Para. 1**

**Letter e of the Statutes**

**Iris Aichinger**

Staff representative  
NRW.BANK  
Düsseldorf

**Martin Bösenberg**

Staff representative  
NRW.BANK  
Münster

**Matthias Elzinga**

Staff representative  
NRW.BANK  
Münster

**Frank Lill**

Staff representative  
NRW.BANK  
Düsseldorf

**Thomas Stausberg**

Director  
NRW.BANK  
Düsseldorf

**Permanent Representatives**  
Pursuant to Section 12 Para. 2 of the Statutes

**Wulf Noll** (until Jun. 30, 2017) /  
(since Aug. 25, 2017) / (until Sep. 30, 2017)  
Assistant Secretary  
Ministry for Economic Affairs, Innovation,  
Digitalization and Energy  
of the State of North Rhine-Westphalia  
Düsseldorf

**Gerhard Heilgenberg**  
(until Jun. 30, 2017) / (since Aug. 9, 2017)  
Assistant Secretary  
Ministry of Finance  
of the State of North Rhine-Westphalia  
Düsseldorf

**Annett Fischer** (until Jun. 30, 2017)  
Assistant Secretary  
Ministry of Building, Housing,  
Urban Development and Transport  
of the State of North Rhine-Westphalia  
Düsseldorf

**Karl-Heinz Kolenbrander**  
(since Sep. 4, 2017) / (until Dec. 31, 2017)  
Under Secretary  
Ministry of Home Affairs, Municipal Affairs,  
Construction and Equality  
of the State of North Rhine-Westphalia  
Düsseldorf

**Dr. Christian von Kraack** (since Jan. 18, 2018)  
Senior Principal  
Ministry of Home Affairs, Municipal Affairs,  
Construction and Equality  
of the State of North Rhine-Westphalia  
Düsseldorf

**Managing Board**

**Eckhard Forst**  
Chairman of the Managing Board

**Gabriela Pantring**  
Member of the Managing Board

**Michael Stölting**  
Member of the Managing Board

**Dietrich Suhlrie**  
Member of the Managing Board

Düsseldorf/Münster, February 14, 2018

NRW.BANK

The Managing Board  
Forst, Pantring, Stölting, Suhlrie

# Cash Flow Statement

of NRW.BANK as of December 31, 2017

The cash flow statement shows the changes in cash and cash equivalents and the cash flows of NRW.BANK, divided into operating activities, investing activities and financing activities. The cash and cash equivalents shown include the balance sheet items "Cash" and "Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks". Cash flows are allocated to operating activities as operating income accrues. The cash flow from investing activities results primarily from cash received and cash used in connection with selling or acquiring financial and tangible assets. The change in cash from financing activities captures the relationships to equity capital providers. The statement was prepared in accordance with German Accounting Standard No. 21 (Deutscher Rechnungslegungsstandard Nr. 21 – DRS 21).

2017

	€ millions
1. Net income	10.2
2. Depreciation, write-downs/write-ups of receivables and tangible assets	-12.2
3. Increase/decrease in provisions	62.5
4. Other non-cash items	530.4
5. Gain/loss on the sale of tangible assets	-174.3
6. Other adjustments (balance)	0.0
7. Increase/decrease in receivables from banks	-5,596.0
8. Increase/decrease in receivables from customers	941.4
9. Increase/decrease in securities (with the exception of financial assets)	-1,370.2
10. Increase/decrease in other assets from operating activities	-66.0
11. Increase/decrease in liabilities to banks	2,046.9
12. Increase/decrease in liabilities to customers	-674.2
13. Increase/decrease in certificated liabilities	3,285.5
14. Increase/decrease in other liabilities from operating activities	2,755.4
15. Interest expenses/income	-634.8
16. Expenses for/income from extraordinary items	0.0
17. Income tax expenses/income	7.8
18. Interest and dividends received	4,373.6
19. Interest paid	-3,497.2
20. Extraordinary cash received	0.0
21. Extraordinary cash disbursed	0.0
22. Income tax payments	-9.0
<b>23. Cash flow from operating activities</b>	<b>1,979.8</b>

2017

	€ millions
24. Cash from the disposal of financial assets	876.9
25. Disbursements for investments in financial assets	-39.3
26. Cash from the disposal of tangible assets	0.0
27. Disbursements for investments in tangible assets	-2.1
28. Cash from the disposal of intangible assets	0.0
29. Disbursements for investments in intangible assets	-1.4
30. Changes in cash from other investing activities (balance)	0.0
<b>31. Cash flow from investing activities</b>	<b>834.1</b>
32. Cash from allocations to equity capital	0.6
33. Disbursements from equity reductions	0.0
34. Dividends paid to shareholders	-12.0
35. Cash changes from other capital (balance)	-94.3
<b>36. Cash flow from financing activities</b>	<b>-105.7</b>
37. Net change in cash and cash equivalents	2,708.2
38. Other changes in cash and cash equivalents	0.0
39. Cash and cash equivalents at the beginning of the period	506.3
<b>40. Cash and cash equivalents at the end of the period</b>	<b>3,214.5</b>

# Statement of Changes in Equity

of NRW.BANK as of December 31, 2017

	Subscribed capital	Capital reserves	Reserves from retained earnings	Reserves required by NRW.BANK's Statutes	Other reserves from retained earnings	Profit for the year	Total
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
<b>As of Dec. 31, 2015</b>	<b>17,000.0</b>	<b>726.2</b>	<b>36.1</b>	<b>219.6</b>	<b>0.0</b>	<b>17,981.9</b>	
Compensation payments of the Federal Government for new promotional measures		0.6				0.6	
Net income					12.0	12.0	
Designated payout due to legal requirements					-12.0	-12.0	
<b>As of Dec. 31, 2016</b>	<b>17,000.0</b>	<b>726.8</b>	<b>36.1</b>	<b>219.6</b>	<b>0.0</b>	<b>17,982.5</b>	
Allocations		0.7				0.7	
Net income					10.2	10.2	
Designated payout due to legal requirements					-10.2	-10.2	
<b>As of Dec. 31, 2017</b>	<b>17,000.0</b>	<b>727.5</b>	<b>36.1</b>	<b>219.6</b>	<b>0.0</b>	<b>17,983.2</b>	

# Reproduction of the Auditor's Report

We have issued the following Auditor's Report on the annual financial statements and the management report:

## "Independent auditor's report

**To NRW.BANK Anstalt des öffentlichen Rechts, Düsseldorf and Münster.**

## Report on the audit of the annual financial statements and the management report

### Audit opinions

We have audited the annual financial statements of NRW.BANK Anstalt des öffentlichen Rechts, which comprise the balance sheet as at 31 December 2017 and the income statement for the fiscal year from January 1, 2017 to December 31, 2017, the notes to the annual financial statements, the cash flow statement and the statement of changes in equity including the presentation of the accounting and valuation principles. We have also audited the management report of NRW.BANK Anstalt des öffentlichen Rechts for the fiscal year from January 1, 2017 to December 31, 2017.

According to our assessment based on the findings of our audit

- the accompanying annual financial statements comply, in all material respects, with the applicable provisions of German commercial law for corporations and, in accordance with German principles of proper accounting, give a true and fair view of the net assets and financial position of the Bank as of December 31, 2017 as well as of its result of operations for the fiscal year from January 1, 2017 to December 31, 2017 and
- the accompanying management report as a whole provides a suitable view of the Bank's position. In all material respects, the management report is consistent with the annual financial statements, complies with legal requirements and suitably presents the future opportunities and risks.

Pursuant to Section 322 Para. 3 Sentence 1 of the German Commercial Code (HGB), we state that our audit has not led to any reservations with respect to the correctness of the annual financial statements and the management report.

### Basis for the audit opinions

We conducted our audit of the annual financial statements and the management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014) and in compliance with German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Our responsibility under those provisions and standards is further described in the "Auditor's responsibility for the audit of the annual financial statements and the management report" section of our report. We are independent of the Bank in accordance with the requirements of European and German commercial and professional law, and we have fulfilled our ethical responsibilities applicable in Germany in accordance with these requirements. In accordance with Article 10 Para. 2 Letter f of the EU Audit Regulation, we also declare that we have not provided non-audit services prohibited under Article 5 Para 1 of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the annual financial statements and the management report.

### Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were most important in our audit of the annual financial statements for the fiscal year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

A description of what we have classified as a key audit matter is provided below:

#### Valuation of receivables from customers of the Housing Promotion business unit

##### Reasons for the classification as a key audit matter:

The valuation of receivables from customers of the Housing Promotion business unit and the related estimate of the allowances for such receivables is an important area in which management takes discretionary

decisions. Individual and general allowances as well as allowance reserves pursuant to Section 340f HGB are established for acute and latent credit risks from loans. The identification of impaired loans and the determination of the recoverable amount are subject to uncertainties and take into account several assumptions and influencing factors, especially the financial position of the borrowers and the expected future cash flows from the loan agreements and/or from the properties financed as well as from the liquidation of collateral. Minor changes in the assumptions may lead to major valuation differences and may, hence, change the need to make write-downs for impairment.

A relatively large amount of time was needed to examine the valuation of receivables from customers of the Housing Promotion business unit in the context of the annual audit, which is therefore classified as a key audit matter.

**Audit procedure and potentially important findings:**

We have assessed the design and the effectiveness of the internal control system for the material accounting-relevant lending processes. The focus was placed on the processes for the ongoing monitoring of credit exposures and for the calculation of individual impairments.

In the calculation of the individual impairments, we placed a focus on reviewing the need to establish risk provisions in the context of the annual monitoring of credit exposures and/or because of a particular cause and on determining the amount of such risk provisions. At the processual level, we primarily reviewed compliance with the deadlines for annual monitoring as well as the appropriateness and application of the Bank's proprietary risk provisioning concept. We also examined whether the calculation schemes defined by the Bank for the determination of the individual allowances are adequate and used consistently. The calculation schemes were primarily assessed on the basis of our industry knowledge.

On a random basis, we additionally conducted statement-related audit procedures and assessed the need

for and appropriateness of individual risk provisions in the context of the individual case audit. The focus of our statement-related audit procedures was placed on management's estimates of the expected future cash flows from the loan agreements and/or from the properties financed as well as from the liquidation of collateral.

The random samples were chosen in a risk-oriented manner, especially based on criteria such as the amount of the exposures and/or the listing of loans on watch-lists for latent and acute risks of default as well as the rating class.

We reviewed the material assumptions regarding expected cash flows from the loan agreements and/or from the properties financed as well as from the liquidation of collateral in the context of the write-down process. Our focus was placed on the real-estate collateral furnished.

To assess the valuation of the real-estate collateral, we used the valuation appraisals prepared by the Bank's internal experts. We examined the activity of the experts, especially with regard to the independent and adequate determination of the values, on the basis of our industry knowledge. We also had the valuation appraisals reviewed by our own specialists on a random sample basis. This included both an assessment of the valuation method used in the valuation appraisal and the assessment of the determination of the parameters used for the estimates and the arithmetical reproduction of the appraisal of the collateral.

To assess the estimates of the expected cash flows from the loan agreements, the properties financed and the liquidation of collateral, we checked the Bank's assumptions for plausibility using the present financial statements, tenant lists and cash flow projections of the customers and compared them with market data where available.

Our audit procedures have not led to any reservations regarding the valuation of receivables from customers of the Housing Promotion business unit.

#### Reference to related disclosures:

The Bank's disclosures on the valuation of receivables from customers of the Housing Promotion business unit are made in the notes under Accounting and Valuation Principles under the heading "2. Promotional Loans of the Housing Promotion Business Unit". Further information regarding the receivables from customers of the Housing Promotion business unit, the risk provisions established in the fiscal year and the amount of the risk provisions as of the balance sheet date is provided in the management report of the Bank in paragraphs "2.3.1" and "5.6.6".

#### Other information

The Supervisory Board is responsible for providing the "Report of the Supervisory Board". Otherwise, the legal representatives are responsible for providing "other information".

"Other information" comprises the following paragraphs of the 2017 Financial Report: "Report on Public Corporate Governance", "Declaration of Conformity", "Report of the Supervisory Board", "Report on Equal Opportunities and Equal Pay", "Responsibility Statement", "Members of the Advisory Board for Housing Promotion", "Members of the Parliamentary Advisory Board", "Members of the Advisory Board", "Organisation Chart" and "NRW.BANK at a Glance". "Other information" additionally comprises the paragraph "The Promotional Business of NRW.BANK" in the 2017 Financial Report, which will probably be made available to us after the date of the present auditor's report.

Our audit opinions of the annual financial statements and the management report do not cover "other information" and we therefore issue no audit opinion or any other type of audit conclusion regarding such "other information".

As part of our audit, it is our responsibility to read the "other information" and to check whether such "other information"

- shows material inconsistencies with the annual financial statements, the management report or the knowledge obtained in the context of our audit or
- otherwise appears to be materially misstated.

If, on the basis of the work performed by us, we arrive at the conclusion that such "other information" is materially misstated, we are obliged to report on this. We have nothing to report in this respect.

#### Responsibilities of the legal representatives and the Supervisory Board for the annual financial statements and the management report

The legal representatives are responsible for preparing annual financial statements that comply, in all material respects, with German commercial law applicable for corporations and for ensuring that the annual financial statements, in accordance with German principles of proper accounting, give a true and fair view of the net assets, financial position and result of operations of the Bank. In addition the legal representatives are responsible for such internal control as they have determined necessary in accordance with German principles of proper accounting to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Bank's ability to continue as a going concern. They also have the responsibility – where applicable – for disclosing matters related to the going concern. In addition they are responsible for the accounting, based on the going concern accounting principle, unless this is made impossible by actual or legal circumstances.

The legal representatives are also responsible for preparing a management report which, as a whole, provides a suitable view of the Bank's position, and is consistent with the annual financial statements in all material aspects, complies with German legal requirements and suitably presents the future opportunities and risks. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they consider necessary to enable the preparation of a management report that complies with the requirements of German commercial law and to enable the provision of sufficient and appropriate evidence for assertions in the management report.

The Supervisory Board is responsible for overseeing the Bank's financial reporting process for the prepara-

tion of the annual financial statements and the management report.

### **Auditor's responsibility for the audit of the annual financial statements and the management report**

Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides a suitable view of the situation of the Bank and is consistent with the annual financial statements in all material aspects as well as with the findings of our audit, complies with the legal provisions applicable in Germany and adequately reflects the future opportunities and risks as well as to issue an auditor's report that contains our audit opinions of the annual financial statements and the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German generally accepted standards for the audit of annual financial statements promulgated by the Institute of Public Auditors in Germany will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in total, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

During our audit, we exercise professional judgement and maintain professional scepticism. Moreover

- we identify and assess the risks of material misstatement of the annual financial statements and the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- we obtain an understanding of the internal control system that is relevant for the audit of the annual financial statements and of the arrangements and measures that are relevant for the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of the Bank's systems;
- we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the accounting estimates and related disclosures made by the legal representatives;
- we conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements or in the management report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may result in the Bank no longer being able to continue as a going concern;
- we evaluate the overall presentation, structure and content of the annual financial statements and whether the annual financial statements represent the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the net assets, financial position and result of operations of the Bank in accordance with German principles of proper accounting;
- we assess the consistency of the management report with the annual financial statements, its compliance with applicable laws and the view it provides of the situation of the Bank;
- we perform audit procedures on the forward-looking information presented by the legal representatives in the management report. Based on sufficient audit evidence, we hereby review, in particular, the significant assumptions used by the legal representatives as a basis for the forward-

looking information and evaluate the appropriate derivation of the forward-looking information from these assumptions. We do not express a separate audit opinion on the forward-looking information and on the underlying assumptions. There is a substantial unavoidable risk that future events will deviate materially from the forward-looking information.

We discuss with the supervisory body, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the supervisory body with a statement that we have complied with the relevant independence requirements and discuss with it all relationships and other matters that may reasonably be thought to bear on our independence and the protective measures taken in this context.

From the matters discussed with the supervisory body, we determine those matters that were most important in the audit of the annual financial statements of the reporting period and are therefore the key audit matters. We describe these matters in our report on the audit of the annual financial statements unless laws or other regulations preclude public disclosure of such matters.

#### **Other legal and regulatory requirements**

##### **Further information pursuant to Article 10 of the EU Audit Regulation**

We were elected as auditors by the Board of Guarantors on March 22, 2017. We were commissioned by the Supervisory Board of NRW.BANK Anstalt des öffentlichen Rechts on May 17, 2017. We have been the auditors of the annual financial statements of NRW.BANK Anstalt des öffentlichen Rechts without interruption since the fiscal year 2016.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (audit report).

#### **German public accountant responsible for the audit**

The German public accountant responsible for the audit is Martin Werthmann."

Düsseldorf, February 14, 2018

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft



Werthmann  
German Public Accountant



Eckert  
German Public Accountant

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of NRW.BANK, and the management report includes a fair review of the development and performance of the business and the position of NRW.BANK, together with a description of the principal opportunities and risks associated with the expected development of NRW.BANK.

Düsseldorf/Münster, February 14, 2018

NRW.BANK

The Managing Board



Eckhard Forst  
Chairman of the Managing Board



Gabriela Pantring  
Member of the Managing Board



Michael Stölting  
Member of the Managing Board



Dietrich Suhlrie  
Member of the Managing Board

# Members of the Advisory Board for Housing Promotion

## Members Pursuant to Section 23 Para. 1 Letter a of the Statutes

**Michael Groschek** (until May 31, 2017)

Chairman

Minister for Building, Housing,  
City Development and Transport  
of the State of North Rhine-Westphalia  
Düsseldorf

**Ina Scharrenbach** (since Jun. 30, 2017)

Chairwoman

Minister of Home Affairs, Municipal Affairs,  
Construction and Equality  
of the State of North Rhine-Westphalia  
Düsseldorf

## Members Pursuant to Section 23 Para. 1 Letter b of the Statutes

**Günther Bongartz**

(until May 31, 2017) / (since Aug. 10, 2017)

Assistant Secretary

Ministry of Finance

of the State of North Rhine-Westphalia  
Düsseldorf

**Dr. Michael Henze**

(until May 31, 2017) / (since Jul. 21, 2017)

Assistant Secretary

Ministry for Economic Affairs, Innovation,  
Digitalization and Energy

of the State of North Rhine-Westphalia  
Düsseldorf

**Hans Lauf** (until May 31, 2017) / (since Jul. 25, 2017) /

(until Feb. 4, 2018)

Assistant Secretary

Ministry of Work, Welfare

and Social Integration

of the State of North Rhine-Westphalia  
Düsseldorf

**Sven-Axel Köster** (until Feb. 4, 2018)

Senior Principal

Ministry of Work, Welfare and

Social Integration

of the State of North Rhine-Westphalia  
Düsseldorf

## Members Pursuant to Section 23 Para. 1 Letter c of the Statutes

**Roger Beckamp, MdL** (since Sep. 13, 2017)

Member of the AfD Parliamentary Group

State Assembly of North Rhine-Westphalia

Düsseldorf

**Andreas Becker, MdL** (since Sep. 13, 2017)

Member of the SPD Parliamentary Group

State Assembly of North Rhine-Westphalia

Düsseldorf

**Martin Börschel, MdL**

(until May 31, 2017) / (since Sep. 13, 2017)

Member of the SPD Parliamentary Group

State Assembly of North Rhine-Westphalia

Düsseldorf

**Holger Ellerbrock, MdL** (until May 31, 2017)

Member of the FDP Parliamentary Group

State Assembly of North Rhine-Westphalia

Düsseldorf

**Dieter Hilser, MdL** (until May 31, 2017)

Member of the SPD Parliamentary Group

State Assembly of North Rhine-Westphalia

Düsseldorf

**Gerda Kieninger, MdL** (until May 31, 2017)

Member of the SPD Parliamentary Group

State Assembly of North Rhine-Westphalia

Düsseldorf

**Arndt Klocke, MdL**

(until May 31, 2017) / (since Sep. 13, 2017)

Member of the

Bündnis 90/Die Grünen Parliamentary Group

State Assembly of North Rhine-Westphalia

Düsseldorf

**Stephen Paul, MdL** (since Sep. 13, 2017)

Member of the FDP Parliamentary Group

State Assembly of North Rhine-Westphalia

Düsseldorf

**Sarah Philipp, MdL** (since Sep. 13, 2017)

Deputy Chairwoman of the SPD Parliamentary Group

State Assembly of North Rhine-Westphalia

Düsseldorf

**Bernhard Schemmer, MdL** (until May 31, 2017)

Member of the CDU Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

**Fabian Schrupf, MdL** (since Sep. 13, 2017)

Member of the CDU Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

**Daniel Sieveke, MdL** (since Sep. 13, 2017)

Deputy Chairman of the CDU Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

**Eva-Maria Voigt-Küppers, MdL** (until May 31, 2017)

Member of the SPD Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

**Klaus Vossemer, MdL**

(until May 31, 2017) / (since Sep. 13, 2017)  
Member of the CDU Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

**Olaf Wegner, MdL** (until May 31, 2017)

Member of the Piraten Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

**Members Pursuant to Section 23 Para. 1  
Letter d of the Statutes****Erik Amaya** (until May 31, 2017) / (since Oct. 6, 2017)

Managing Director  
Haus & Grund NRW e. V.  
Düsseldorf

**Elisabeth Gendziorra, lawyer** (since Oct. 6, 2017)

Managing Director  
BFW Landesverband Nordrhein-Westfalen e. V.  
Düsseldorf

**Dr. Werner Küpper** (until May 31, 2017)

BFW Landesverband Nordrhein-Westfalen e. V.  
Bonn

**Alexander Rychter**

(until May 31, 2017) / (since Oct. 6, 2017)  
Association Director  
Verband der Wohnungs- und Immobilienwirtschaft  
Rheinland Westfalen e. V.  
Düsseldorf

**Members Pursuant to Section 23 Para. 1  
Letter e of the Statutes****Rudolf Graaff** (until May 31, 2017) / (since Oct. 6, 2017)

Deputy Mayor  
Städte- und Gemeindebund Nordrhein-Westfalen e. V.  
Düsseldorf

**Thomas Hendele**

(until May 31, 2017) / (since Oct. 6, 2017)  
President  
Landkreistag Nordrhein-Westfalen  
Düsseldorf

**Stefan Raetz** (until May 31, 2017) / (since Oct. 6, 2017)

Mayor  
City of Rheinbach  
Rheinbach

**Hilmar von Lojewski**

(until May 31, 2017) / (since Oct. 6, 2017)  
Deputy Mayor  
for Urban Development, Construction,  
Housing and Transport  
Städtetag Nordrhein-Westfalen  
Cologne

**Member Pursuant to Section 23 Para. 1  
Letter f of the Statutes****Hans-Jochem Witzke**

(until May 31, 2017) / (since Oct. 6, 2017)  
1st Chairman of the Managing Board  
Deutscher Mieterbund Nordrhein-Westfalen e. V.  
Düsseldorf

**Member Pursuant to Section 23 Para. 1  
Letter g of the Statutes****Dipl.-Ing. Ernst Uhing**

(until May 31, 2017) / (since Oct. 6, 2017)  
President  
Architektenkammer Nordrhein-Westfalen  
Düsseldorf

**Permanent Representative of the Chairing Member  
Pursuant to Section 23 Para. 2 of the Statutes****Sigrid Koeppinghoff**

(until May 31, 2017) / (since Oct. 6, 2017)  
Assistant Secretary  
Ministry of Home Affairs, Municipal Affairs,  
Construction and Equality  
of the State of North Rhine-Westphalia  
Düsseldorf

# Members of the Advisory Board

## Members Pursuant to Section 25 of the Statutes

**Garrelt Duin** (until Jun. 27, 2017)  
Chairman  
Minister for Economic Affairs,  
Energy and Industry  
of the State of North Rhine-Westphalia  
Düsseldorf

**Prof. Dr. Andreas Pinkwart** (since Jan. 1, 2018)  
Chairman  
Minister for Economic Affairs, Innovation,  
Digitalization and Energy  
of the State of North Rhine-Westphalia  
Düsseldorf

**Kai Abruszat** (since Jan. 1, 2018)  
Mayor  
Stemwede local community  
Stemwede

**Michael Ackermann**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Managing Director  
Klinikum Bielefeld gem. GmbH  
Bielefeld

**Frank Baranowski** (until Jun. 27, 2017)  
Lord Mayor  
City of Gelsenkirchen  
Gelsenkirchen

**Uwe Berghaus** (since Jan. 1, 2018)  
Member of the Managing Board of  
DZ BANK AG  
Deutsche Zentral-Genossenschaftsbank  
Düsseldorf

**Dr.-Ing. Heinrich Bökamp** (since Jan. 1, 2018)  
President and Board member  
Chamber of Engineers in North Rhine-Westphalia  
Düsseldorf

**Michael Breuer**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
President  
Savings Banks and Giro Association  
of the Rhineland  
Düsseldorf

**Prof. Dr. Liane Buchholz** (since Apr. 1, 2017) /  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
President  
Savings Banks and Giro Association  
of Westphalia-Lippe  
Münster

**Dr. Andre Carls** (since Jan. 1, 2018)  
Chairman of the Managing Board  
Bankenverband Nordrhein-Westfalen e.V.  
Düsseldorf

**Pit Clausen** (until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairman of the Managing Board  
Städtetag Nordrhein-Westfalen  
Düsseldorf

**Heinrich Otto Deichmann**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairman of the Supervisory Board  
Deichmann SE  
Essen

**Paolo Dell' Antonio** (since Jan. 1, 2018)  
Member of the Managing Board  
Wilh. Werhahn KG  
Neuss

**Andreas Ehlert**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
President  
Chamber of Handicrafts Düsseldorf  
Düsseldorf

**Thomas Eiskirch**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Lord Mayor  
City of Bochum  
Bochum

**Diana Ewert** (until Jun. 27, 2017)  
District President  
Arnsberg Regional Government  
Arnsberg

**Andreas Feicht**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairman of the Managing Board  
Verband kommunaler Unternehmen e.V.  
– Regional Group North Rhine-Westphalia –  
Cologne

**Dorothee Feller** (since Jan. 1, 2018)

District President  
Münster Regional Government  
Münster

**Florian Festge** (since Jan. 1, 2018)

Personally liable Partner  
HAVER & BOECKER OHG  
Drahtweberei und Maschinenfabrik  
Oelde

**Dr. Reinhold Festge** (until Jun. 27, 2017)

Managing Partner  
HAVER & BOECKER OHG  
Drahtweberei und Maschinenfabrik  
Oelde

**Heinz Fiege** (until Jun. 27, 2017) / (since Jan. 1, 2018)

FIEGE Logistik Holding Stiftung & Co. KG  
Greven

**Prof. Dr. Ursula Gather**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairwoman of the Board of Trustees  
Alfried Krupp von Bohlen und Halbach-Stiftung  
Essen

**Dieter Gebhard**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairman  
Regional Assembly of Westphalia-Lippe  
Münster

**Dr. Rolf Gerlach** (until Mar. 31, 2017)

President  
Savings Banks and Giro Association  
of Westphalia-Lippe  
Münster

**Thomas Hendele**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
President  
Landkreistag Nordrhein-Westfalen e. V.  
Düsseldorf

**Thomas Hunsteger-Petermann**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Lord Mayor  
City of Hamm  
Hamm

**Ralf Kersting** (until Jun. 27, 2017)

President  
IHK NRW – Die Industrie- und Handelskammern  
in Nordrhein-Westfalen e. V.  
Düsseldorf

**Dipl.-Wirtsch.-Ing. Arndt G. Kirchhoff**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Managing Partner and CEO  
KIRCHHOFF Holding GmbH & Co. KG  
Iserlohn

**Dipl.-Ing. Hanspeter Klein**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairman of the Managing Board  
Verband Freier Berufe  
im Lande Nordrhein-Westfalen e. V.  
Düsseldorf

**Prof. Dr. Reinhard Klenke** (until Jun. 27, 2017)

District President  
Münster Regional Government  
Münster

**Stefan Koetz** (since Jan. 1, 2018)

Chairman of the Management Director  
Ericsson GmbH  
Düsseldorf

**Daniel Krahn** (since Jan. 1, 2018)

Founder & Managing Director  
UNIQ GmbH  
Holzwickedede

**Dr. Arne Kupke**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Legal Vice President  
Evangelical Church of Westphalia  
Bielefeld

**Markus Lewe** (until Jun. 27, 2017) / (since Jan. 1, 2018)

Lord Mayor  
City of Münster  
Münster

**Matthias Löb** (until Jun. 27, 2017) / (since Jan. 1, 2018)

Director of LWL  
Regional Association of Westphalia-Lippe  
Münster

**Ulrike Lubek** (until Jun. 27, 2017) / (since Jan. 1, 2018)  
Director of LVR  
Regional Association of the Rhineland  
Cologne

**Wolfgang Lubert**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Managing Director  
EnjoyVenture Management GmbH  
Düsseldorf

**Anne Lütkes** (until Jun. 27, 2017)  
District President  
Düsseldorf Regional Government  
Düsseldorf

**Dr.-Ing. Hinrich Mähmann**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Personally liable partner  
OTTO FUCHS KG  
Meinerzhagen

**Prof. Dr.-Ing. Wolfgang Marquardt**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairman of the Board of Directors  
Forschungszentrum Jülich GmbH  
Jülich

**Dr. Dominik Meiering**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Apostolic Administrator of the Archbishop of Cologne  
Cologne Archbishopric  
Cologne

**Andreas Meyer-Lauber** (until Jun. 27, 2017)  
District Chairman  
Deutscher Gewerkschaftsbund NRW  
Düsseldorf

**Roland Oetker** (since Jan. 1, 2018)  
Personally liable Partner  
ROI Verwaltungsgesellschaft mbH  
Düsseldorf

**Dr. Uli Paetzel**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairman of the Managing Board  
EMSCHERGENOSSENSCHAFT und LIPPEVERBAND  
Essen/Dortmund

**Dr. Paul-Josef Patt**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairman of the Managing Board  
eCAPITAL entrepreneurial Partners AG  
Münster

**Birgitta Radermacher** (since Jan. 1, 2018)  
District President  
Düsseldorf Regional Government  
Düsseldorf

**Henriette Reker**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Lord Mayor  
City of Cologne  
Cologne

**Martin Renker** (until Jun. 27, 2017)  
Chairman of the Managing Board  
Bankenverband Nordrhein-Westfalen e. V.  
Düsseldorf

**Dr. Eckhard Ruthemeyer** (until Jun. 27, 2017)  
President  
Städte- und Gemeindebund Nordrhein-Westfalen e. V.  
Düsseldorf

**Prof. Dr.-Ing. Gerhard Sagerer**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairman  
Directors Conference of the Universities  
in North Rhine-Westphalia  
Dortmund

**Prof. Dr. Christoph M. Schmidt** (since Jan. 1, 2018)  
President of the RWI – Leibnitz-Institut für  
Wirtschaftsforschung  
Essen

**Prof. Dr. Uwe Schneidewind**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
President and Academic Managing Director  
Wuppertal Institut für Klima,  
Umwelt, Energie gGmbH  
Wuppertal

**Frank Sportolari**  
(until Jun. 27, 2017) / (since Jan. 1, 2018)  
District Manager  
UPS Deutschland Inc. & Co. OHG  
Neuss

**Peter Terium** (until Jun. 27, 2017)

Chairman of the Managing Board  
innogy SE  
Essen

**Marianne Thomann-Stahl**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
District President  
Detmold Regional Government  
Detmold

**Carola Gräfin von Schmettow** (since Jan. 1, 2018)

Chairwoman of the Management Board  
HSBC Trinkaus & Burkhardt AG  
Düsseldorf

**Hans-Josef Vogel**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
District President  
Arnsberg Regional Government  
Arnsberg

**Gisela Walsken**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
District President  
Cologne Regional Government  
Cologne

**Prof. Dr. Jürgen Wilhelm**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairman  
Regional Assembly of the Rhineland  
Cologne

**Hans-Bernd Wolberg** (until Jun. 27, 2017)

Deputy Chief Executive Officer  
DZ BANK AG  
Deutsche Zentral-Genossenschaftsbank  
Düsseldorf

**Matthias Zachert**

(until Jun. 27, 2017) / (since Jan. 1, 2018)  
Chairman of the Managing Board  
LANXESS AG  
Leverkusen

# Members of the Parliamentary Advisory Board

## Members Pursuant to Section 26 of the Statutes

### **Elisabeth Müller-Witt, MdL**

(until May 31, 2017) / (since Sep. 13, 2017)  
Chairwoman (until May 31, 2017) and  
Member of the SPD Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Dr. Marcus Optendrenk, MdL**

(until May 31, 2017) / (since Sep. 13, 2017)  
Chairman (since Nov. 6, 2017) and  
Deputy Chairman of the CDU Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Mehrdad Mostofizadeh, MdL**

(until May 31, 2017) / (since Sep. 13, 2017)  
Deputy Chairman (until May 31, 2017) and  
Deputy Chairman of the  
Bündnis 90/Die Grünen Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Ralf Witzel, MdL**

(until May 31, 2017) / (since Sep. 13, 2017)  
Deputy Chairman (since Nov. 6, 2017) and  
Deputy Chairman of the FDP Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Ralph Bombis, MdL** (since Sep. 13, 2017)

Member of the FDP Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Marc Herter, MdL**

(until May 31, 2017) / (since Sep. 13, 2017)  
Parliamentary Managing Director of the  
SPD Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Stefan Kämmerling, MdL**

(until May 31, 2017) / (since Sep. 13, 2017)  
Member of the SPD Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Nicolaus Kern, MdL** (until May 31, 2017)

Member of the Piraten Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Gerda Kieninger, MdL** (until May 31, 2017)

Member of the SPD Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Christian Möbius, MdL** (until May 31, 2017)

Member of the CDU Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Arne Moritz, MdL** (since Sep. 13, 2017)

Member of the CDU Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Dr. Patricia Peill, MdL** (since Sep. 13, 2017)

Member of the CDU Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Svenja Schulze, MdL** (since Sep. 13, 2017)

Member of the SPD Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Herbert Strotebeck, MdL** (since Sep. 13, 2017)

Member of the AfD Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Marco Voge, MdL** (since Sep. 13, 2017)

Member of the CDU Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Hendrik Wüst, MdL** (until May 31, 2017)

Member of the CDU Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

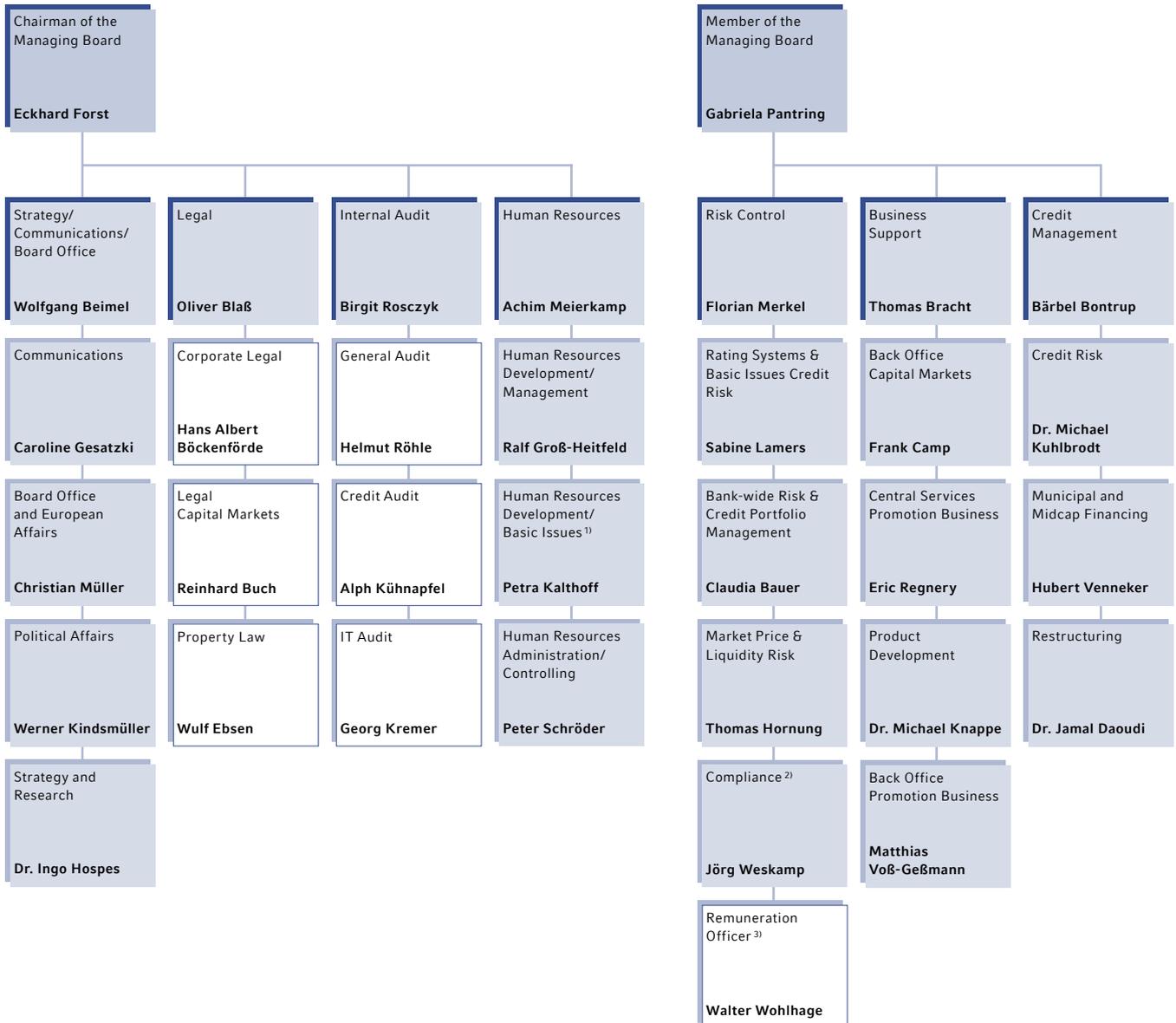
### **Gudrun Zentis, MdL** (until May 31, 2017)

Member of the  
Bündnis 90/Die Grünen Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Stefan Zimkeit, MdL** (until May 31, 2017)

Member of the SPD Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

# Organisation Chart



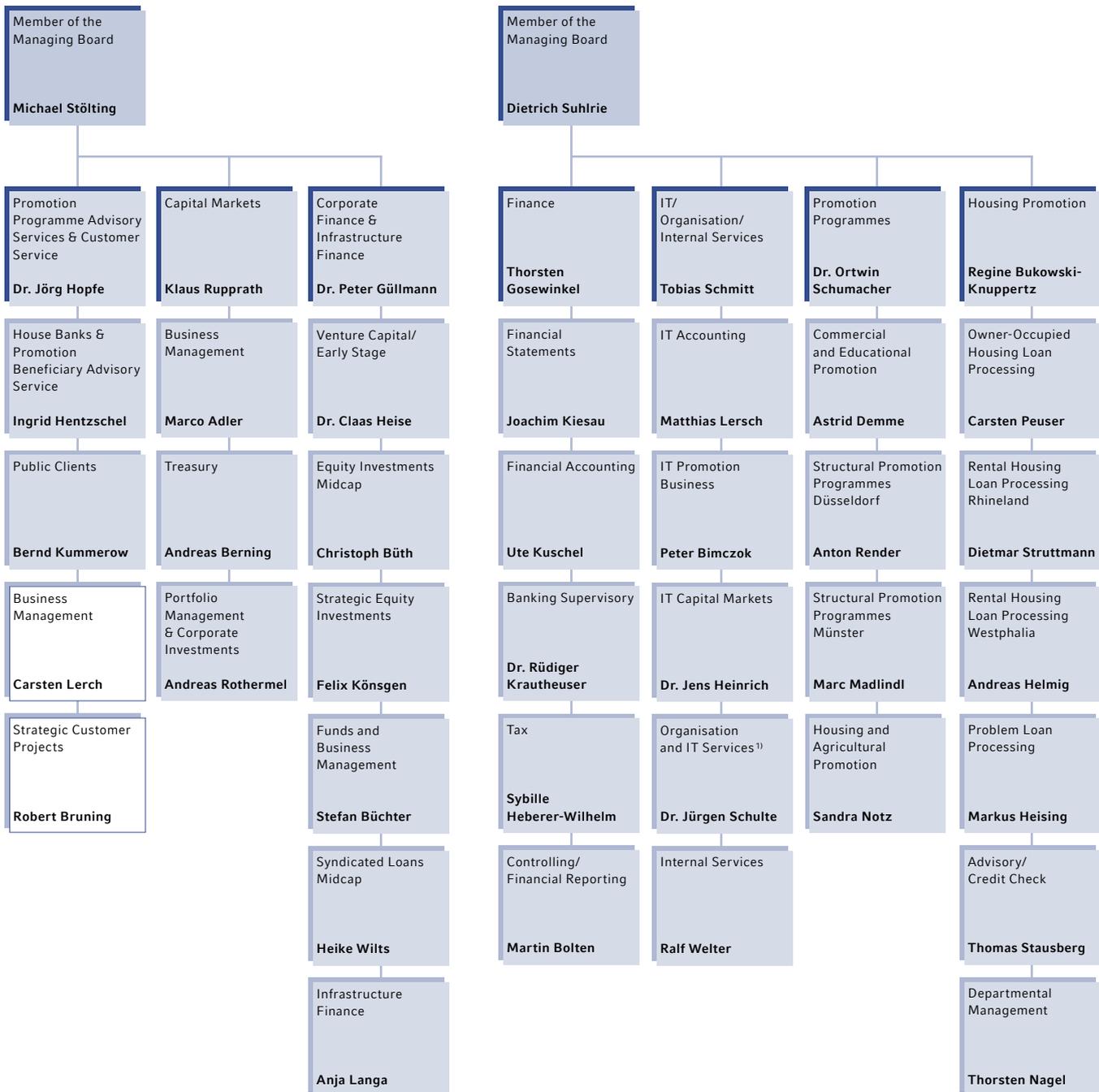
Business Unit
  Department
  Team with direct reporting line to the Business Unit Head

<sup>1)</sup> Occupational Safety Officer, Equal Opportunities Officer, Data Protection Officer and Chief Information Security Officer (CISO) report directly to the Managing Board.

<sup>2)</sup> The Money Laundering Officer, who is in charge of the central function for the prevention of money laundering, terrorist financing and other criminal acts pursuant to § 25h KWG, the WpHG Compliance Officer and the MaRisk Compliance Officer report directly to the Managing Board and are bound by instructions only from the latter.

<sup>3)</sup> The Remuneration Officer reports directly to the Supervisory Board and the Remuneration Control Committee.

Note: The Staff Council is not shown as an organisational unit in the organisational chart of NRW.BANK as it is an elected body which has no reporting relationship with the Managing Board.



# NRW.BANK at a Glance

## NRW.BANK Facts

**NRW.BANK** Competition-neutral promotional bank of North Rhine-Westphalia operating according to the house bank principle; holds a full bank licence

### Guarantors

- State of North Rhine-Westphalia (100%)

### Liabilities/Guarantees

- Institutional liability
- Guarantor liability
- Explicit funding guarantee granted by the guarantors

**Legal Status** Public law bank

**Head Offices** Düsseldorf and Münster

## Information Services of NRW.BANK

### NRW.BANK.Infoline

Initial advice and information on promotional products for:

commercial Phone +49 211 91741-4800

housing Phone +49 211 91741-4500

Fax +49 211 91741-1800

info@nrwbank.de

Service hours: Mondays to Thursdays from 8 a.m. to 6 p.m. and Fridays from 8 a.m. to 5.30 p.m.

**For further advice, you may also contact:**

### EU and Foreign Trade & Investment Promotion

Phone +49 211 91741-4000

Fax +49 211 91742-6218

europa@nrwbank.de

### Accounting Management – Public Sector Clients

Phone +49 211 91741-4600

Fax +49 211 91741-2666

oeffentliche-kunden@nrwbank.de

## NRW.BANK

### Düsseldorf

Kavalleriestraße 22  
40213 Düsseldorf  
Phone +49 211 91741-0  
Fax +49 211 91741-1800

www.nrwbank.de  
info@nrwbank.de

 [twitter.com/nrwbank](https://twitter.com/nrwbank)

### Münster

Friedrichstraße 1  
48145 Münster  
Phone +49 251 91741-0  
Fax +49 251 91741-2921

### Concept and Design,

### Production and Typesetting

vE&K Werbeagentur GmbH & Co. KG,  
Essen

### Print

Woeste Druck + Verlag  
GmbH & Co. KG, Essen-Kettwig

## Financial Calendar 2018

March 20, 2018

Annual press conference

August 31, 2018

Publication of the promotional result for the second quarter

November 16, 2018

Publication of the promotional result for the third quarter

## Volume of new commitments

### Breakdown by promotional fields

	2017	2016
	€ millions	€ millions
Economy	3,667	3,210
Housing	2,609	2,746
Infrastructure/Municipalities	5,359	5,205
<b>Total</b>	<b>11,635</b>	<b>11,161</b>

## Key Figures

	2017	2016
	€ millions	€ millions
Total assets	147,584	142,066
Equity capital pursuant to the German Commercial Code (HGB)	17,983	17,983
Common Equity Tier 1 capital	18,424	18,394
Own funds	20,016	20,024
Operating income	614	680
Administrative expenses	219	215
Operating result	395	465
CET1 capital ratio	41.34%	41.76%
Total capital ratio	44.91%	45.46%
Number of employees	1,348	1,331

## Ratings

	Fitch Ratings	Moody's	Standard & Poor's	Dagong
Long-term rating	AAA	Aa1	AA-	AA+
Short-term rating	F1+	P-1	A-1+	A-1
Outlook	stable	stable	stable	stable

## Sustainability Ratings

	oekom research	imug	Sustainalytics	Vigeo	MSCI	DZ BANK
Rating	Prime (C)	positive (B)	n. p.*	n. p.*	AA-	Seal of approval for sustainability

\* not public



